COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES	)))	CASE NO. 2009-00548

VOLUME 3 OF 5

RESPONSE TO FILING REQUIREMENTS listed in 807 KAR 5:001 SECTION 10(6)(r) through 807 KAR 5:001 SECTION 10(7)(e)

Filed: January 29, 2010

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Vol. No.	Tab No.	Filing Requirement	Description	Sponsoring Witness
1	10	807 KAR 5:001 Section 10(2)	*Notice of Intent. Utilities with gross annual revenues greater than $1,000,000 shall file with the commission a written notice of intent to file a rate application at least four (4) weeks prior to filing their application. The notice of intent shall state whether the rate application shall be supported by a historical test period or a fully forecasted test period. This notice shall be served upon the Attorney General, Utility Intervention and Rate Division.*	Mr. Bellar
1	11	807 KAR 5:001 Section 10(3)	*Form of notice to customers. Every utility filing an application pursuant to this section shall notify all affected customers in the manner prescribed herein. The notice shall include the following information: (a) The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rate change will apply; (b) The present rates and the proposed rates for each customer class to which the proposed rates would apply; (c) Electric, gas, water and sewer utilities shall include the effect upon the average bill for each customer class to which the proposed rate change will apply; (d) Local exchange companies shall include the effect upon the average bill for each customer class for the proposed rate change in basic local service; (e) A statement that the rates contained in this notice are the rates proposed by (name of utility); however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (f) A statement that any corporation, association, or person with a substantial interest in the matter may, by written request, within thirty (30) days after publication or mailing of this notice of the proposed rate changes request to intervene; intervention may be granted beyond the thirty (30) day period for good cause shown; (g) A statement that any person who has been granted intervention by the commission may obtain copies of the rate application and any other filings made by the utility by contacting the utility through a name and address and phone number stated in this notice; (h) A statement that any person may examine the rate application and any other filings made by the utility at the main office of the utility or at the commission's office indicating the addresses and telephone numbers of both the utility and the commission; and (i) The commission may grant a utility with annual gross revenues greater than $1,000,000, upon written request, permission to use an abbreviated form of published notice of the proposed rates provided the notice includes a coupon which may be used to obtain all of the information required herein.*	Mr. Bellar

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Vol. No.	Tab No.	Filing Requirement	Description	Sponsoring Witness
1	12	807 KAR 5:001 Section 10(4)(a)	*Manner of notification. Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185.*	Mr. Bellar
1	13	807 KAR 5:001 Section 10(4)(b)	*Manner of notification. Applicants with twenty (20) or fewer customers affected by the proposed general rate adjustment shall mail the required typewritten notice to each customer no later than the date the application is filed with the commission.*	Mr. Bellar
1	14	807 KAR 5:001 Section 10(4)(c)	*Manner of notification. Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a trade publication or newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the commission.*	Mr. Bellar
1	15	807 KAR 5:001 Section 10(4)(d)	*Manner of notification. If the notice is published, an affidavit from the publisher verifying the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the commission no later than forty-five (45) days of the filed date of the application.*	Mr. Bellar
1	16	807 KAR 5:001 Section 10(4)(e)	*Manner of notification. If the notice is mailed, a written statement signed by the utility's chief officer in charge of Kentucky operations verifying the notice was mailed shall be filed with the commission no later than thirty (30) days of the filed date of the application.*	Mr. Bellar
1	17	807 KAR 5:001 Section 10(4)(f)	*Manner of notification. All utilities, in addition to the above notification, shall post a sample copy of the required notification at their place of business no later than the date on which the application is filed which shall remain posted until the commission has finally determined the utility's rates.*	Mr. Bellar
1	18	807 KAR 5:001 Section 10(4)(g)	*Manner of notification. Compliance with this subsection shall constitute compliance with 807 KAR 5:051, Section 2.*	Mr. Bellar
1	19	807 KAR 5:001 Section 10(5)	*Notice of hearing scheduled by the commission upon application by a utility for a general adjustment in rates shall be advertised by the utility by newspaper publication in the areas that will be affected in compliance with KRS 424.300*	Mr. Bellar

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3	39	807 KAR 5:001 Section 10(6)(t)	*If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file: 1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment; 2. An explanation of how the allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;*	Ms. Scott
3	40	807 KAR 5:001 Section 10(6)(u)	*If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.*	Mr. Seelye
3	41	807 KAR 5:001 Section 10(6)(v)	*Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file: 1. A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and 2. Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access: a. Based on current and reliable data from a single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.*	Mr. Bellar
3	42	807 KAR 5:001 Section 10(7)(a)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;*	Ms. Scott

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Vol. No.	Tab No.	Filing Requirement	Description	Sponsoring Witness
3	43	807 KAR 5:001 Section 10(7)(b)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.*	Ms. Charnas
3	44	807 KAR 5:001 Section 10(7)(c)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (c) For each proposed pro forma adjustment reflecting plant additions provide the following information: 1. The starting date of the construction of each major component of plant; 2. The proposed in-service date; 3. The total estimated cost of construction at completion; 4. The amount contained in construction work in progress at the end of the test period; 5. A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement; 6. The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions; 7. An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and 8. The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;*	Ms. Charnas
3	45	807 KAR 5:001 Section 10(7)(d)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (d) The operating budget for each period encompassing the pro forma adjustments.*	Ms. Scott

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Vol. No.	Tab No.	Filing Requirement	Description	Sponsoring Witness
3	46	807 KAR 5:001 Section 10(7)(e)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.*	Mr. Seelye

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Filing Requirement
807 KAR 5:001 Section 10(6)(r)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

The monthly managerial reports providing financial results of operations for the twelve (12) months in the test period.

Response:

See attached.

KU Monthly Report to KPSC – October 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

October 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
October 31, 2009

Kentucky [illegible]s Company
Comparative Statement of Income
October 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	114,192,133.45	114,175,605.96	16,527.49	0.01
Total Operating Revenues	114,192,133.45	114,175,605.96	16,527.49	0.01
Fuel for Electric Generation	32,213,614.42	37,768,420.94	(5,554,806.52)	(14.71)
Power Purchased	14,035,307.00	19,597,394.62	(5,562,087.62)	(28.38)
Other Operation Expenses	16,373,385.05	14,255,802.07	2,117,582.98	14.85
Maintenance	8,151,775.67	6,836,724.31	1,315,051.36	19.24
Depreciation	10,725,983.89	11,896,710.57	(1,170,726.68)	(9.84)
Amortization Expense	553,543.21	460,493.97	93,049.24	20.21
Regulatory Credits	(202,399.78)	(192,937.57)	(9,462.21)	(4.90)
Taxes				
Federal Income	2,221,412.02	4,801,985.47	(2,580,573.45)	(53.74)
State Income	535,082.46	923,458.74	(388,376.28)	(42.06)
Deferred Federal Income - Net	4,274,588.06	-	4,274,588.06	100.00
Deferred State Income - Net	643,508.61	-	643,508.61	100.00
Property and Other	904,654.01	2,139,536.29	(1,234,882.28)	(57.72)
Investment Tax Credit	1,479,295.85	-	1,479,295.85	100.00
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	177,654.68	168,188.63	9,466.05	5.63
Total Operating Expenses	92,087,405.15	98,655,778.04	(6,568,372.89)	(6.66)
Net Operating Income	22,104,728.30	15,519,827.92	6,584,900.38	42.43
Other Income Less Deductions				
Other Income Less Deductions	(247,458.59)	696,574.77	(944,033.36)	(135.53)
AFUDC - Equity	215,431.55	515,853.08	(300,421.53)	(58.24)
Total Other Income Less Deductions	(32,027.04)	1,212,427.85	(1,244,454.89)	(102.64)
Income Before Interest Charges	22,072,701.26	16,732,255.77	5,340,445.49	31.92
Interest on Long-term Debt	6,154,535.70	6,362,919.33	(208,383.63)	(3.28)
Amortization of Debt Expense - Net	68,386.36	62,981.49	5,404.87	8.58
Other Interest Expenses	247,576.91	713,150.98	(465,574.07)	(65.28)
AFUDC - Borrowed Funds	(91,767.37)	(174,243.00)	82,475.63	47.33
Total Interest Charges	6,378,731.60	6,964,808.80	(586,077.20)	(8.41)
Net Income	15,693,969.66	9,767,446.97	5,926,522.69	60.68

November 20, 2009

Kentucky L   .s Company
Comparative Statement of Income
October 31, 2009

	Year to Date			
	This Year	Last Year	Increase or Decrease	
	Amount	Amount	Amount	%
Electric Operating Revenues	1,124,382,593.42	1,153,854,449.52	(29,471,856.10)	(2.55)
Total Operating Revenues	1,124,382,593.42	1,153,854,449.52	(29,471,856.10)	(2.55)
Fuel for Electric Generation	360,957,825.99	417,112,320.63	(56,154,494.64)	(13.46)
Power Purchased	167,760,296.53	183,931,819.90	(16,171,523.37)	(8.79)
Other Operation Expenses	157,959,894.73	138,469,033.69	19,490,861.04	14.08
Maintenance	79,343,186.90	76,328,190.38	3,014,996.52	3.95
Depreciation	106,062,135.63	107,379,878.26	(1,317,742.63)	(1.23)
Amortization Expense	4,958,158.85	4,306,317.06	651,841.79	15.14
Regulatory Credits	(1,998,331.28)	(1,888,016.98)	(110,314.30)	(5.84)
Taxes				
Federal Income	(13,831,752.62)	28,713,620.13	(42,545,372.75)	(148.17)
State Income	1,212,835.41	8,458,217.24	(7,245,381.83)	(85.66)
Deferred Federal Income - Net	50,713,582.38	(2,982,047.83)	53,695,630.21	1,800.63
Deferred State Income - Net	7,276,919.51	(1,429,408.42)	8,706,327.93	609.09
Property and Other	18,704,403.83	17,458,845.40	1,245,558.43	7.13
Investment Tax Credit	18,457,863.34	21,919,897.97	(3,462,034.63)	(15.79)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	1,748,076.53	1,642,541.47	105,535.06	6.43
Total Operating Expenses	959,240,387.97	998,838,102.35	(39,597,714.38)	(3.96)
Net Operating Income	165,142,205.45	155,016,347.17	10,125,858.28	6.53
Other Income Less Deductions				
Other Income Less Deductions	7,987,197.70	25,608,067.80	(17,620,870.10)	(68.81)
AFUDC - Equity	3,465,689.79	4,944,078.29	(1,478,388.50)	(29.90)
Total Other Income Less Deductions	11,452,887.49	30,552,146.09	(19,099,258.60)	(62.51)
Income Before Interest Charges	176,595,092.94	185,568,493.26	(8,973,400.32)	(4.84)
Interest on Long-term Debt	59,783,920.30	56,644,559.88	3,139,360.42	5.54
Amortization of Debt Expense - Net	678,356.02	613,659.75	64,696.27	10.54
Other Interest Expenses	2,833,709.99	3,643,976.82	(810,266.83)	(22.24)
AFUDC - Borrowed Funds	(1,190,012.43)	(1,677,964.69)	487,952.26	29.08
Total Interest Charges	62,105,973.88	59,224,231.76	2,881,742.12	4.87
Net Income	114,489,119.06	126,344,261.50	(11,855,142.44)	(9.38)

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Kentucky [illegible]s Company
Comparative Statement of Income
October 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,374,570,197.15	1,366,236,770.63	8,333,426.52	0.61
Total Operating Revenues	1,374,570,197.15	1,366,236,770.63	8,333,426.52	0.61
Fuel for Electric Generation	456,244,976.10	489,127,726.80	(32,882,750.70)	(6.72)
Power Purchased	205,005,244.93	211,430,651.53	(6,425,406.60)	(3.04)
Other Operation Expenses	186,403,088.68	165,443,004.28	20,960,084.40	12.67
Maintenance	91,793,789.00	94,514,700.19	(2,720,911.19)	(2.88)
Depreciation	129,797,266.46	127,546,007.24	2,251,259.22	1.77
Amortization Expense	5,881,497.64	5,143,957.63	737,540.01	14.34
Regulatory Credits	(2,386,863.01)	(2,247,702.53)	(139,160.48)	(6.19)
Taxes				
Federal Income	639,256.06	26,434,950.51	(25,795,694.45)	(97.58)
State Income	2,808,352.10	10,777,658.14	(7,969,306.04)	(73.94)
Deferred Federal Income - Net	43,502,122.19	(4,804,463.80)	48,306,585.99	1,005.45
Deferred State Income - Net	5,547,459.07	(1,791,909.98)	7,339,369.05	409.58
Property and Other	21,906,652.75	20,346,014.38	1,560,638.37	7.67
Investment Tax Credit	21,804,863.34	35,519,897.97	(13,715,034.63)	(38.61)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,087,110.42	1,952,719.59	134,390.83	6.88
Total Operating Expenses	1,170,950,107.97	1,178,810,105.40	(7,859,997.43)	(0.67)
Net Operating Income	203,620,089.18	187,426,665.23	16,193,423.95	8.64
Other Income Less Deductions				
Other Income Less Deductions	11,760,319.87	31,692,074.73	(19,931,754.86)	(62.89)
AFUDC - Equity	4,562,580.06	5,777,819.27	(1,215,239.21)	(21.03)
Total Other Income Less Deductions	16,322,899.93	37,469,894.00	(21,146,994.07)	(56.44)
Income Before Interest Charges	219,942,989.11	224,896,559.23	(4,953,570.12)	(2.20)
Interest on Long-term Debt	71,469,915.64	66,592,629.49	4,877,286.15	7.32
Amortization of Debt Expense - Net	808,266.79	733,722.68	74,544.11	10.16
Other Interest Expenses	3,814,898.51	4,392,977.44	(578,078.93)	(13.16)
AFUDC - Borrowed Funds	(1,560,516.15)	(1,917,892.97)	357,376.82	18.63
Total Interest Charges	74,532,564.79	69,801,436.64	4,731,128.15	6.78
Net Income	145,410,424.32	155,095,122.59	(9,684,698.27)	(6.24)

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Kentucky L ,es Company
Analysis of Retained Earnings
October 31, 2009

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance at Beginning of Period..............................	1,283,080,424.42	10,677,341.75	1,174,207,029.97	20,755,586.80	1,138,385,852.71	25,655,458.80
Add:						
Net Income for Period....................................	15,693,969.66	-	114,489,119.06	-	145,410,424.32	-
Deduct:						
Adjust for Equity in Subsidiary			-			
Earnings for Year						
-EE Inc..	517,181.00	(517,181.00)	(254,573.95)	254,573.95	(2,854,701.95)	2,854,701.95
Dividends Received Current Year						
-EE Inc..	-	-	10,850,000.00	(10,850,000.00)	18,350,000.00	(18,350,000.00)
Balance at End of Period....................................	1,299,291,575.08	10,160,160.75	1,299,291,575.08	10,160,160.75	1,299,291,575.08	10,160,160.75

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	10,160,160.75	10,160,160.75	10,160,160.75
Statutory Tax Rate..	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary.....................	3,952,302.53	3,952,302.53	3,952,302.53

Combined Balance of Retained Earnings	12 MONTHS 10/31/2009	12 MONTHS 10/31/2008
Retained Earnings at Beginning of Period.....................	1,164,041,311.51	1,008,938,500.92
Net Income..	145,410,424.32	155,095,122.59
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period..........................	1,309,451,735.83	1,164,041,311.51

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Kentucky Utilities Company
Comparative Balance Sheets as of October 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,975,896,409.74	5,510,456,759.33
Less Reserves for Depreciation and Amortization	2,101,470,902.10	2,036,394,192.03
Total	3,874,425,507.64	3,474,062,567.30
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	11,455,960.75	26,951,258.80
Special Funds	-	5,875,370.85
Other	411,140.00	411,140.00
Total	12,296,221.69	33,666,890.59
Current and Accrued Assets		
Cash	3,929,364.48	95,386.98
Special Deposits	-	20,526,541.13
Temporary Cash Investments	269.25	13.11
Accounts Receivable-Less Reserve	169,981,228.23	155,759,642.90
Accounts Receivable from Associated Companies	938,945.28	4,552,735.03
Materials and Supplies-At Average Cost		
Fuel	99,219,777.25	76,484,790.96
Plant Materials and Operating Supplies	30,941,174.37	29,440,550.81
Stores Expense	7,207,137.03	6,302,300.82
Allowance Inventory	1,286,022.04	21,651.98
Prepayments	4,324,525.91	4,069,722.76
Miscellaneous Current and Accrued Assets	1,347,389.60	1,097,634.77
Total	319,175,833.44	298,350,971.25
Deferred Debits and Other		
Unamortized Debt Expense	4,876,367.29	4,245,902.18
Unamortized Loss on Bonds	13,085,263.33	13,270,246.44
Accumulated Deferred Income Taxes	45,494,673.82	42,653,761.36
Deferred Regulatory Assets	277,195,710.34	86,492,945.22
Other Deferred Debits	42,704,974.01	71,635,117.30
Total	383,356,988.79	218,297,972.50
Total Assets and Other Debits	4,589,254,551.56	4,024,378,401.64

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	315,858,083.00	215,000,000.00
Retained Earnings	1,299,291,575.08	1,138,385,852.71
Unappropriated Undistributed Subsidiary Earnings	10,160,160.75	25,655,458.80
Total Common Equity	1,933,128,507.52	1,686,860,000.20
Pollution Control Bonds	350,779,405.00	287,879,405.00
LT Notes Payable to Associated Companies	1,281,000,000.00	1,106,000,000.00
Total Long-term Debt	1,631,779,405.00	1,393,879,405.00
Total Capitalization	3,564,907,912.52	3,080,739,405.20
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	19,665,954.00	121,961,454.00
Accounts Payable	153,825,864.51	147,690,994.11
Accounts Payable to Associated Companies	30,570,412.89	30,896,196.39
Customer Deposits	21,824,649.94	20,888,960.90
Taxes Accrued	8,277,553.00	9,548,580.66
Interest Accrued	1,644,308.25	1,549,947.81
Miscellaneous Current and Accrued Liabilities	20,122,865.58	17,518,424.53
Total	255,931,608.17	350,054,558.40
Deferred Credits and Other		
Accumulated Deferred Income Taxes	380,444,213.07	326,516,267.17
Investment Tax Credit	98,311,103.13	76,657,087.28
Regulatory Liabilities	39,642,825.12	40,558,724.70
Customer Advances for Construction	2,379,712.45	2,294,353.02
Asset Retirement Obligations	34,007,189.49	31,864,862.87
Other Deferred Credits	37,176,108.70	27,723,437.49
Miscellaneous Long-term Liabilities	2,574,013.04	3,429,900.56
Accum Provision for Postretirement Benefits	173,879,865.87	84,539,804.95
Total	768,415,030.87	593,584,438.04
Total Liabilities and Other Credits	4,589,254,551.56	4,024,378,401.64

November 20, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
October 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total: Capital and ST Debt	Percent of Total: Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			315,858,083.00		
Retained Earnings			1,299,291,575.08		
Unappropriated Undistributed Subsidiary Earnings			10,160,160.75		
Total Common Equity			1,933,128,507.52	53.93	54.23
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	9.78	9.84
Long-term Notes Payable to Associated Companies			1,281,000,000.00	35.74	35.93
Total Capitalization			3,564,907,912.52	99.45	100.00
Short-term Notes Payable to Associated Companies			19,665,954.00	0.55	
Total Capitalization and Short-term Debt			3,584,573,866.52	100.00	

November 20, 2009

Kentucky Utilities Company
Summary Trial Balance
October 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,975,896,409.74	5,975,896,409.74
Reserves for Depreciation and Amortization		(2,101,470,902.10)
Depreciation of Plant	(2,089,958,038.87)	
Amortization of Plant	(11,512,863.23)	
Investments		12,296,221.69
Investments in Subsidiary Company	11,455,960.75	
Investments in Community Development	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	3,929,364.48	3,929,364.48
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		169,981,228.23
Customers - Active	79,623,454.05	
Unbilled Revenues	57,017,528.90	
Income Tax Receivable - Federal	11,611,666.00	
OMU Reserve Funds	6,150,161.97	
IMPA	3,717,347.41	
IMEA	3,498,000.82	
Transmission Sales	568,289.32	
Wholesale Sales	155,788.19	
Damage Claims	134,009.92	
Margin Cash Collateral	113,763.58	
Employee Computer Loans	52,914.68	
Working Funds	39,530.00	
Electricity Swaps	35,667.82	
Interest and Dividends Receivable	12,474.01	
Billed Projects	4,740.50	
Reserves for Uncollectible Accounts		
Utility Customers		
Charged Off	3,802,778.34	
A/R Miscellaneous	(24,318.00)	
Recoveries	(729,468.88)	
Reserve	(1,133,491.00)	
Accrual	(3,073,103.27)	
Other	8,403,493.87	
Accounts Receivable from Associated Companies		938,945.28
E.ON US Services/Louisville Gas and Electric Company	938,945.28	

November 20, 2009

Kentucky Utilities Company
Summary Trial Balance
October 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		99,219,777.25
Coal 1,558,163.78 Tons @ $59.81 MMBtu 36,388,016.57 @ 256.11¢	93,194,523.32	
Fuel Oil 2,957,944.00 Gallons @ 201.42¢	5,957,917.04	
Gas Pipeline 12,572.90 Mcf @ $5.36	67,336.89	
Plant Materials and Operating Supplies		30,941,174.37
Regular Materials and Supplies	30,401,046.41	
Limestone 73,496.98 Tons @ $7.35	540,127.96	
Stores Expense Undistributed	7,207,137.03	7,207,137.03
Allowance Inventory	1,286,022.04	1,286,022.04
Prepayments		4,324,525.91
Taxes	1,250,327.72	
Insurance	194,740.89	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	45,372.24	
Other	2,759,085.06	
Miscellaneous Current Assets		1,347,389.60
Derivative Asset - Non-Hedging	1,347,389.60	
Unamortized Debt Expense		4,876,367.29
Carroll County 2002 Series A due 02/01/32 Var%	91,236.34	
Mercer County 2002 Series A due 02/01/32 Var%	25,458.40	
Muhlenburg County 2002 Series A due 02/01/32 Var%	70,597.11	
Carroll County 2002 Series B due 02/01/32 Var%	63,417.62	
Carroll County 2002 Series C due 10/01/32 Var%	1,685,459.69	
Carroll County 2006 Series B due 10/01/34 Var%	1,193,912.17	
Carroll County 2007 Series A due 02/01/26 5.75%	541,706.61	
Trimble County 2007 Series A due 03/01/37 6.00%	439,263.48	
Carroll County 2008 Series A due 02/01/32 Var%	765,315.87	
Unamortized Loss on Bonds	13,085,263.33	13,085,263.33
Accumulated Deferred Income Taxes		45,494,673.82
Federal	38,473,151.01	
State	7,021,522.81	
Regulatory Assets		277,195,710.34
Pension and Postretirement Benefits	126,832,090.11	
2009 Winter Storm	57,253,873.88	
Environmental Cost Recovery	29,969,627.00	
Asset Retirement Obligations	29,562,650.76	
SFAS 109 - Deferred Taxes	12,206,169.73	
MISO Exit Fee	11,047,215.17	
FERC Jurisdictional Pension Expense	3,643,869.01	
2008 Wind Storm	2,195,516.35	
EKPC FERC Transmission Cost	1,450,353.90	
Rate Case Expenses	1,074,637.04	
Fuel Adjustment Clause	878,000.00	
KCCS Funding	807,697.39	
VA Fuel Component	274,010.00	
Other Deferred Debits	42,704,974.01	42,704,974.01
Total Assets and Other Debits	4,589,254,551.56	4,589,254,551.56

November 20, 2009

Kentucky Utilities Company
Summary Trial Balance
October 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,933,128,507.52
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	315,858,083.00	
Retained Earnings	1,299,291,575.08	
Unappropriated Undistributed Subsidiary Earnings	10,160,160.75	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,281,000,000.00	1,281,000,000.00
Short-term Notes Payable to Associated Companies	19,665,954.00	19,665,954.00
Accounts Payable		153,825,864.51
Regular	152,152,694.59	
Salaries and Wages Accrued	1,710,195.86	
Employee Withholdings Payable	(37,025.94)	
Accounts Payable to Associated Companies		30,570,412.89
Fidelia	16,467,676.24	
E.ON US Services/Louisville Gas and Electric Company	14,102,736.65	
Customers' Deposits	21,824,649.94	21,824,649.94
Taxes Accrued	8,277,553.00	8,277,553.00
Interest Accrued		1,644,308.25
Mercer County 2000 Series A due 05/01/23 Var%	4,386.49	
Carroll County 2002 Series A due 02/01/32 Var%	20,815.31	
Mercer County 2002 Series A due 02/01/32 Var%	7,359.44	
Muhlenburg County 2002 Series A due 02/01/32 Var%	2,386.82	
Carroll County 2002 Series B due 02/01/32 Var%	2,386.82	
Carroll County 2002 Series C due 10/01/32 Var%	19,370.60	
Carroll County 2004 Series A due 10/01/34 Var%	13,520.58	
Carroll County 2006 Series B due 10/01/34 Var%	18,286.05	
Carroll County 2007 Series A due 02/01/26 5.75%	428,255.21	
Trimble County 2007 Series A due 03/01/37 6.00%	223,175.00	
Carroll County 2008 Series A due 02/01/32 Var%	27,036.02	
Customers' Deposits	800,970.89	
Other	76,359.02	

November 20, 2009

Kentucky Utilities Company
Summary Trial Balance
October 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		20,122,865.58
Franchise Fee Payable	6,272,362.49	
Vacation Pay Accrued	5,442,225.28	
Tax Collections Payable	3,433,218.33	
Customer Overpayments	2,960,131.12	
OMU Excess	945,427.51	
Derivative Liabilities - Non-Hedging	903,990.43	
Other	165,510.42	
Accumulated Deferred Income Taxes		380,444,213.07
Federal	329,686,046.19	
State	50,758,166.88	
Investment Tax Credit		98,311,103.13
Advance Coal Credit	98,291,408.31	
Job Development Credit	19,694.82	
Regulatory Liabilities		39,642,825.12
Deferred Taxes	22,252,141.67	
DSM Cost Recovery	7,808,965.91	
Asset Retirement Obligations	4,102,306.71	
MISO Schedule 10 Charges	3,792,070.33	
Spare Parts	1,687,340.50	
Customers' Advances for Construction		2,379,712.45
Line Extensions	1,482,755.35	
Customer Advances	204,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	688,361.20	
Asset Retirement Obligations	34,007,189.49	34,007,189.49
Other Deferred Credits	37,176,108.70	37,176,108.70
Miscellaneous Long-term Liabilities		2,574,013.04
Workers' Compensation	2,539,198.62	
Long-Term Derivative Liabilities-SFAS 133	34,814.42	
Accumulated Provision for Benefits		173,879,865.87
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	63,214,069.01	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(233,923.00)	
Medicare Subsidy - SFAS 106	(5,093,742.14)	
Total Liabilities and Other Credits	4,589,254,551.56	4,589,254,551.56

November 20, 2009

Kentucky Utilities Company
Statement of Cash Flows
October 31, 2009

	Year to Date	
	2009	2008
Cash Flows from Operating Activities		
Net income	114,489,119.06	126,344,261.50
Items not requiring (providing) cash currently:		
Depreciation	106,062,135.63	107,379,878.26
Amortization	4,958,158.85	4,306,317.06
Deferred income taxes - net	57,990,501.89	(4,411,456.25)
Investment tax credit - net	18,457,863.34	21,919,897.97
Other	21,325,503.81	10,284,469.79
Change in receivables	13,066,128.97	28,437,929.81
Change in inventory	(28,896,055.81)	(36,632,180.74)
Change in allowance inventory	(1,211,602.76)	361,242.13
Change in payables and accrued expenses	6,326,704.55	21,631,172.07
Change in regulatory assets	(88,165,291.62)	(4,327,694.60)
Change in regulatory liabilities	(840,457.48)	2,837,688.62
Change in other deferred debits	34,167,756.13	(3,128,094.78)
Change in other deferred credits	15,467,029.38	14,287,293.89
Other	(56,184,938.62)	(9,459,549.05)
Gain on disposal of assets	(78,884.12)	-
Less: Allowance for other funds used during construction	(4,655,702.22)	(10,060,145.97)
Less: Undistributed earnings of subsidiary company	10,595,426.05	(4,448,390.80)
Net cash provided (used) by operating activities	222,873,395.03	265,322,638.91
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(413,597,744.71)	(615,290,871.65)
Less: Allowance for other funds used during construction	4,655,702.22	6,622,042.98
Proceeds received from sales of property	89,185.93	-
Change in non-hedging derivatives	809,583.66	(589,703.46)
Change in other special funds	(307,816.40)	40,513.22
Change in restricted cash	9,041,466.83	(9,540,985.35)
Net cash provided (used) by investing activities	(399,309,622.47)	(618,759,004.26)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	99,387,516.51	252,272,394.74
Net change in short-term debt	3,418,500.00	98,742,000.00
Payments for retirement of long-term debt	-	(59,921,140.00)
Payments for reacquisition of long-term debt	-	(79,593,620.00)
Retirement of reacquired long-term debt	-	16,693,620.00
Contributed capital	75,146,486.00	125,000,000.00
Net cash provided (used) by financing activities	177,952,502.51	353,193,254.74
Net Increase (Decrease) in Cash and Cash Equivalents	1,516,275.07	(243,110.61)
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,929,633.73	95,400.09

November 20, 2009

Kentucky U[illegible]es Company
Analysis of Interest Charges
October 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%............	4,386.00	-	54,102.24	289,040.62	60,199.70	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%............	19,553.78	32,441.50	198,427.32	330,562.94	252,016.74	454,399.60
Mercer County 2002 Series A due 02/01/32 Var%............	6,913.43	11,470.00	70,155.87	116,873.68	89,102.92	160,657.30
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,242.19	3,720.00	22,753.24	37,904.98	28,898.23	52,105.07
Carroll County 2002 Series B due 02/01/32 Var%............	2,242.19	3,720.00	22,753.24	37,904.98	28,898.23	52,105.07
Carroll County 2002 Series C due 10/01/32 Var%............	18,765.33	323,674.67	381,901.31	3,167,405.32	776,831.98	3,814,621.32
Carroll County 2004 Series A due 10/01/34 Var%............	13,520.55	-	194,506.85	1,524,201.41	220,668.04	1,878,437.52
Carroll County 2005 Series A due 06/01/35 Var%............	-	51,457.34	-	436,344.82	7,508.83	527,886.77
Carroll County 2005 Series B due 06/01/35 Var%............	-	51,457.34	-	435,387.76	7,508.83	526,929.71
Carroll County 2006 Series A due 06/01/36 Var%............	-	135,359.75	-	779,167.76	52,793.58	899,106.78
Carroll County 2006 Series C due 06/01/36 Var%............	-	(53.57)	-	338,340.01	-	458,279.03
Carroll County 2006 Series B due 10/01/34 Var%............	18,286.03	460,020.00	262,558.37	2,570,379.00	577,343.06	2,946,654.00
Carroll County 2007 Series A due 02/01/26 5.75%..........	85,651.04	88,506.08	856,510.42	822,950.10	1,019,247.41	955,945.07
Trimble County 2007 Series A due 03/01/37 6.00%..........	44,635.00	46,122.83	446,350.00	424,134.16	531,156.54	490,355.15
Carroll County 2008 Series A due 02/01/32 Var%............	27,036.00	103,823.39	373,054.16	103,823.39	594,650.52	103,823.39
Fidelia..	5,911,304.16	5,051,200.00	56,900,847.28	45,230,138.95	67,223,091.03	52,890,872.26
Hardin Promissory Note..	-	-	-	-	-	91,410.83
Total..	6,154,535.70	6,362,919.33	59,783,920.30	56,644,559.88	71,469,915.64	66,592,629.49
Amortization of Debt Expense - Net						
Amortization of Debt Expense..................................	18,003.27	19,806.95	176,770.84	218,376.51	208,705.61	265,683.44
Amortization of Loss on Reacquired Debt......................	50,383.09	43,174.54	501,585.18	395,283.24	599,561.18	468,039.24
Total..	68,386.36	62,981.49	678,356.02	613,659.75	808,266.79	733,722.68
Other Interest Charges						
Customers' Deposits..	82,994.56	103,250.53	940,241.75	963,219.88	1,129,227.33	1,146,201.80
Other Tax Deficiencies..	-	-	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery..................................	2,530.24	(21,006.00)	79,443.45	-	114,729.32	-
Interest on Debt to Associated Companies......................	(10,598.31)	411,658.01	94,766.88	1,911,958.86	490,064.58	2,481,401.56
AFUDC Borrowed Funds..	(91,767.37)	(174,243.00)	(1,190,012.43)	(1,677,964.69)	(1,560,516.15)	(1,917,892.97)
Other Interest Expense..	172,650.42	219,248.44	1,719,257.91	752,260.38	2,077,997.28	752,260.38
Total..	155,809.54	538,907.98	1,643,697.56	1,966,012.13	2,254,382.36	2,475,084.47
Total Interest..	6,378,731.60	6,964,808.80	62,105,973.88	59,224,231.76	74,532,564.79	69,801,436.64

November 20, 2009

Kentucky U[illegible]es Company
Analysis of Taxes Charged and Accrued
October 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	204,853.16	1,160,101.01	11,333,226.60	10,791,010.10
Unemployment	2,079.01	15,379.09	143,323.25	143,348.71
FICA	529,908.77	804,972.86	5,633,126.11	4,961,528.08
Public Service Commission Fee	156,290.97	149,395.89	1,521,539.27	1,492,841.89
Federal Income	2,221,412.02	4,801,985.47	(13,831,752.62)	28,713,620.13
State Income	535,082.46	923,458.74	1,212,835.41	8,458,217.24
Miscellaneous	11,522.10	9,687.44	73,188.60	70,116.62
Total Charged to Operating Expense	3,661,148.49	7,864,980.50	6,085,486.62	54,630,682.77
Taxes Charged to Other Accounts	(2,748,542.90)	(4,378,755.99)	14,735,558.61	24,695,912.46
Taxes Accrued on Intercompany Accounts	(214,371.28)	(183,719.47)	(2,251,164.06)	(1,829,222.58)
Total Taxes Charged	698,234.31	3,302,505.04	18,569,881.17	77,497,372.65

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	11,830,448.64	11,469,263.62	7,153,200.26
Unemployment	48,319.14	84,584.21	133,313.80	(410.45)
FICA	553,448.29	4,911,064.70	5,092,252.69	372,260.30
Federal Income	546,249.77	(2,448,605.92)	(1,902,356.15)	-
State Income	10,477.99	1,001,747.10	971,945.83	40,279.26
Kentucky Sales and Use Tax	577,873.18	3,063,808.85	2,957,799.65	683,882.38
Miscellaneous	30,176.34	126,833.59	128,668.68	28,341.25
Totals	8,558,559.95	18,569,881.17	18,850,888.12	8,277,553.00

November 20, 2009

Kentucky Company
Summary of Utility Plant
October 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	129,245,933.94	(12,941,553.27)	(881,774.20)	115,422,606.47	1,224,864,851.38
Electric General Plant	106,382,748.13	9,783,594.32	(5,998,860.95)	1,522,065.43	5,306,798.80	111,689,546.93
Electric Hydro Production	11,831,164.24	141,115.83	-	344,148.89	485,264.72	12,316,428.96
Electric Intangible Plant	26,829,943.42	38,933,837.14	(15,497,543.61)	-	23,436,293.53	50,266,236.95
Electric Other Production	503,050,995.17	9,157,460.81	(3,431,984.68)	12,329,547.37	18,055,023.50	521,106,018.67
Electric Steam Production	1,715,546,561.48	32,052,602.65	(7,279,973.86)	13,895,917.08	38,668,545.87	1,754,215,107.35
Electric Transmission	525,624,959.67	17,945,715.05	(3,134,893.52)	(27,209,904.57)	(12,399,083.04)	513,225,876.63
Total 101 Accounts	3,998,708,617.02	237,260,259.74	(48,284,809.89)	-	188,975,449.85	4,187,684,066.87
105 Plant Held for Future Use						
Electric						
Electric Steam	10,137,561.95	-	-	-	-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	(46,945,118.97)	-	133,587.29	(46,811,531.68)	75,087,784.05
Electric General Plant	2,677,508.16	(1,993,749.22)	-	15,115.54	(1,978,633.68)	698,874.48
Electric Hydro Production	11,732.37	63,527.72	-	-	63,527.72	75,260.09
Electric Intangible Plant	1,058,583.09	231,083.74	-	-	231,083.74	1,289,666.83
Electric Other Production	210,168.91	1,767,492.60	-	-	1,767,492.60	1,977,661.51
Electric Steam Production	307,830,864.65	178,931,092.99	-	-	178,931,092.99	486,761,957.64
Electric Transmission	3,483,426.89	7,740,817.38	-	(148,702.83)	7,592,114.55	11,075,541.44
Total 106 Accounts	437,171,599.80	139,795,146.24	-	-	139,795,146.24	576,966,746.04
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	24,667,863.11	-	-	24,667,863.11	1,201,108,034.88
Total 107001	1,176,440,171.77	24,667,863.11	-	-	24,667,863.11	1,201,108,034.88
Total Plant (Non-CWIP)	4,446,196,899.71	377,055,405.98	(48,284,809.89)	-	328,770,596.09	4,774,967,495.80
Total Plant + CWIP	5,622,637,071.48	401,723,269.09	(48,284,809.89)	-	353,438,459.20	5,976,075,530.68
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	401,723,269.09	(48,284,809.89)	-	353,438,459.20	5,975,896,409.74

November 20, 2009

KU Monthly Report to KPSC – September 30, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

September 30, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
September 30, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
September 30, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	103,347,908.72	118,881,861.12	(15,533,952.40)	(13.07)
Total Operating Revenues	103,347,908.72	118,881,861.12	(15,533,952.40)	(13.07)
Fuel for Electric Generation	32,911,112.72	46,722,177.62	(13,811,064.90)	(29.56)
Power Purchased	15,516,378.12	16,682,474.87	(1,166,096.75)	(6.99)
Other Operation Expenses	13,379,596.73	7,970,230.41	5,409,366.32	67.87
Maintenance	(45,775,167.48)	9,213,917.14	(54,989,084.62)	(596.80)
Depreciation	10,696,885.40	11,877,624.37	(1,180,738.97)	(9.94)
Amortization Expense	554,004.06	460,216.48	93,787.58	20.38
Regulatory Credits	(205,695.34)	(192,058.13)	(13,637.21)	(7.10)
Taxes				
Federal Income	(15,413,949.41)	(6,954,607.81)	(8,459,341.60)	(121.64)
State Income	(1,500,767.69)	(20,153.12)	(1,480,614.57)	(7,346.83)
Deferred Federal Income - Net	32,494,381.63	3,640,427.86	28,853,953.77	792.60
Deferred State Income - Net	5,309,131.34	344,395.64	4,964,735.70	1,441.58
Property and Other	1,992,059.39	1,709,884.35	282,175.04	16.50
Investment Tax Credit	6,270,340.00	8,994,898.00	(2,724,558.00)	(30.29)
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	178,172.83	167,309.19	10,863.64	6.49
Total Operating Expenses	56,406,482.30	100,616,736.87	(44,210,254.57)	(43.94)
Net Operating Income	46,941,426.42	18,265,124.25	28,676,302.17	157.00
Other Income Less Deductions				
Other Income Less Deductions	(342,132.42)	3,698,887.98	(4,041,020.40)	(109.25)
AFUDC - Equity	211,226.59	494,907.27	(283,680.68)	(57.32)
Total Other Income Less Deductions	(130,905.83)	4,193,795.25	(4,324,701.08)	(103.12)
Income Before Interest Charges	46,810,520.59	22,458,919.50	24,351,601.09	108.43
Interest on Long-term Debt	6,159,461.00	6,023,413.05	136,047.95	2.26
Amortization of Debt Expense - Net	68,348.77	61,966.35	6,382.42	10.30
Other Interest Expenses	413,067.33	867,477.20	(454,409.87)	(52.38)
AFUDC - Borrowed Funds	(89,980.36)	(167,167.97)	77,187.61	46.17
Total Interest Charges	6,550,896.74	6,785,688.63	(234,791.89)	(3.46)
Net Income	40,259,623.85	15,673,230.87	24,586,392.98	156.87

October 21, 2009

Kentucky .ies Company
Comparative Statement of Income
September 30, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,010,190,459.97	1,039,678,843.56	(29,488,383.59)	(2.84)
Total Operating Revenues	1,010,190,459.97	1,039,678,843.56	(29,488,383.59)	(2.84)
Fuel for Electric Generation	328,744,211.57	379,343,899.69	(50,599,688.12)	(13.34)
Power Purchased	153,724,989.53	164,334,425.28	(10,609,435.75)	(6.46)
Other Operation Expenses	141,586,509.68	124,213,231.62	17,373,278.06	13.99
Maintenance	71,191,411.23	69,491,466.07	1,699,945.16	2.45
Depreciation	95,336,151.74	95,483,167.69	(147,015.95)	(0.15)
Amortization Expense	4,404,615.64	3,845,823.09	558,792.55	14.53
Regulatory Credits	(1,795,931.50)	(1,695,079.41)	(100,852.09)	(5.95)
Taxes				
Federal Income	(16,053,164.64)	23,911,634.66	(39,964,799.30)	(167.14)
State Income	677,752.95	7,534,758.50	(6,857,005.55)	(91.01)
Deferred Federal Income - Net	46,438,994.32	(2,982,047.83)	49,421,042.15	1,657.29
Deferred State Income - Net	6,633,410.90	(1,429,408.42)	8,062,819.32	564.07
Property and Other	17,799,749.82	15,319,309.11	2,480,440.71	16.19
Investment Tax Credit	16,978,567.49	21,919,897.97	(4,941,330.48)	(22.54)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	1,570,421.85	1,474,352.84	96,069.01	6.52
Total Operating Expenses	867,152,982.82	900,182,324.31	(33,029,341.49)	(3.67)
Net Operating Income	143,037,477.15	139,496,519.25	3,540,957.90	2.54
Other Income Less Deductions				
Other Income Less Deductions	8,234,656.29	24,911,493.03	(16,676,836.74)	(66.94)
AFUDC - Equity	3,250,258.24	4,428,225.21	(1,177,966.97)	(26.60)
Total Other Income Less Deductions	11,484,914.53	29,339,718.24	(17,854,803.71)	(60.86)
Income Before Interest Charges	154,522,391.68	168,836,237.49	(14,313,845.81)	(8.48)
Interest on Long-term Debt	53,629,384.60	50,281,640.55	3,347,744.05	6.66
Amortization of Debt Expense - Net	609,969.66	550,678.26	59,291.40	10.77
Other Interest Expenses	2,586,133.08	2,930,825.84	(344,692.76)	(11.76)
AFUDC - Borrowed Funds	(1,098,245.06)	(1,503,721.69)	405,476.63	26.96
Total Interest Charges	55,727,242.28	52,259,422.96	3,467,819.32	6.64
Net Income	98,795,149.40	116,576,814.53	(17,781,665.13)	(15.25)

October 21, 2009

Kentucky [illegible]es Company
Comparative Statement of Income
September 30, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,374,553,669.66	1,349,437,824.90	25,115,844.76	1.86
Total Operating Revenues	1,374,553,669.66	1,349,437,824.90	25,115,844.76	1.86
Fuel for Electric Generation	461,799,782.62	485,630,884.21	(23,831,101.59)	(4.91)
Power Purchased	210,567,332.55	204,204,464.77	6,362,867.78	3.12
Other Operation Expenses	184,285,505.70	163,031,739.96	21,253,765.74	13.04
Maintenance	90,478,737.64	97,704,849.11	(7,226,111.47)	(7.40)
Depreciation	130,967,993.14	125,774,172.74	5,193,820.40	4.13
Amortization Expense	5,788,448.40	5,095,213.52	693,234.88	13.61
Regulatory Credits	(2,377,400.80)	(2,234,396.79)	(143,004.01)	(6.40)
Taxes				
Federal Income	3,219,829.51	25,428,308.16	(22,208,478.65)	(87.34)
State Income	3,196,728.38	10,584,073.07	(7,387,344.69)	(69.80)
Deferred Federal Income - Net	39,227,534.13	(4,804,463.80)	44,031,997.93	916.48
Deferred State Income - Net	4,903,950.46	(1,791,909.98)	6,695,860.44	373.67
Property and Other	23,141,535.03	19,929,833.19	3,211,701.84	16.12
Investment Tax Credit	20,325,567.49	35,519,897.97	(15,194,330.48)	(42.78)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,077,644.37	1,939,620.02	138,024.35	7.12
Total Operating Expenses	1,177,518,480.86	1,165,429,179.60	12,089,301.26	1.04
Net Operating Income	197,035,188.80	184,008,645.30	13,026,543.50	7.08
Other Income Less Deductions				
Other Income Less Deductions	12,704,353.23	32,267,458.24	(19,563,105.01)	(60.63)
AFUDC - Equity	4,863,001.59	5,627,825.00	(764,823.41)	(13.59)
Total Other Income Less Deductions	17,567,354.82	37,895,283.24	(20,327,928.42)	(53.64)
Income Before Interest Charges	214,602,543.62	221,903,928.54	(7,301,384.92)	(3.29)
Interest on Long-term Debt	71,678,299.27	65,004,157.91	6,674,141.36	10.27
Amortization of Debt Expense - Net	802,861.92	730,355.39	72,506.53	9.93
Other Interest Expenses	4,280,472.58	4,140,583.54	139,889.04	3.38
AFUDC - Borrowed Funds	(1,642,991.78)	(1,848,911.25)	205,919.47	11.14
Total Interest Charges	75,118,641.99	68,026,185.59	7,092,456.40	10.43
Net Income	139,483,901.63	153,877,742.95	(14,393,841.32)	(9.35)

October 21, 2009

Kentucky U ..ies Company
Analysis of Retained Earnings
September 30, 2009

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance at Beginning of Period..............................	1,242,443,668.97	11,054,473.35	1,174,207,029.97	20,755,586.80	1,129,660,704.94	24,613,159.60
Add:						
Net Income for Period..................................	40,259,623.85	-	98,795,149.40	-	139,483,901.63	-
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..	377,131.60	(377,131.60)	(771,754.95)	771,754.95	(4,414,182.15)	4,414,182.15
Dividends Received Current Year -EE Inc..	-	-	10,850,000.00	(10,850,000.00)	18,350,000.00	(18,350,000.00)
Balance at End of Period....................................	1,283,080,424.42	10,677,341.75	1,283,080,424.42	10,677,341.75	1,283,080,424.42	10,677,341.75

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	10,677,341.75	10,677,341.75	10,677,341.75
Statutory Tax Rate..	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary.....................	4,153,485.94	4,153,485.94	4,153,485.94

Combined Balance of Retained Earnings	12 MONTHS 9/30/2009	12 MONTHS 9/30/2008
Retained Earnings at Beginning of Period.....................	1,154,273,864.54	1,000,388,433.59
Net Income..	139,483,901.63	153,877,742.95
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period..........................	1,293,757,766.17	1,154,273,864.54

October 21, 2009

Kentucky [illegible]s Company
Comparative Balance Sheets as of September 30, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,945,924,114.35	5,459,090,145.15
Less Reserves for Depreciation and Amortization	2,096,237,735.64	2,027,297,186.44
Total	3,849,686,378.71	3,431,792,958.71
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	11,973,141.75	25,908,959.60
Special Funds	-	5,814,140.60
Other	411,140.00	411,140.00
Total	12,813,402.69	32,563,361.14
Current and Accrued Assets		
Cash	3,500,175.34	2,043,695.55
Special Deposits	-	1,209,141.57
Temporary Cash Investments	269.25	17,847.38
Accounts Receivable-Less Reserve	166,560,928.91	176,177,535.51
Accounts Receivable from Associated Companies	2,521,347.08	8,102,391.84
Materials and Supplies-At Average Cost		
Fuel	90,546,767.98	59,018,761.76
Plant Materials and Operating Supplies	31,069,507.89	29,600,567.72
Stores Expense	6,786,075.18	6,427,122.55
Allowance Inventory	1,391,971.99	50,918.69
Prepayments	5,088,714.59	4,774,477.13
Miscellaneous Current and Accrued Assets	1,366,935.64	1,176,872.44
Total	308,832,693.85	288,599,332.14
Deferred Debits and Other		
Unamortized Debt Expense	4,890,741.91	5,509,197.03
Unamortized Loss on Bonds	13,130,484.93	11,784,679.07
Accumulated Deferred Income Taxes	45,657,483.91	42,670,436.79
Deferred Regulatory Assets	278,150,300.73	86,370,919.92
Other Deferred Debits	42,576,747.22	76,410,484.36
Total	384,405,758.70	222,745,717.17
Total Assets and Other Debits	4,555,738,233.95	3,975,701,369.16

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	315,886,419.00	215,000,000.00
Retained Earnings	1,283,080,424.42	1,129,660,704.94
Unappropriated Undistributed Subsidiary Earnings	10,677,341.75	24,613,159.60
Total Common Equity	1,917,462,873.86	1,677,092,553.23
Pollution Control Bonds	350,779,405.00	253,159,520.00
LT Notes Payable to Associated Companies	1,281,000,000.00	1,106,000,000.00
Total Long-term Debt	1,631,779,405.00	1,359,159,520.00
Total Capitalization	3,549,242,278.86	3,036,252,073.23
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	22,909,954.00	115,848,454.00
Accounts Payable	134,910,407.77	137,270,222.35
Accounts Payable to Associated Companies	30,142,604.01	40,758,055.05
Customer Deposits	21,778,321.53	20,451,051.66
Taxes Accrued	12,590,839.54	13,804,976.44
Interest Accrued	1,398,777.96	1,570,803.07
Miscellaneous Current and Accrued Liabilities	19,090,323.83	16,321,887.30
Total	242,821,228.64	346,025,449.87
Deferred Credits and Other		
Accumulated Deferred Income Taxes	375,446,289.14	326,516,267.17
Investment Tax Credit	96,841,653.53	76,683,280.28
Regulatory Liabilities	40,448,277.71	40,226,829.29
Customer Advances for Construction	2,408,460.40	2,343,523.14
Asset Retirement Obligations	33,829,534.81	31,696,674.24
Other Deferred Credits	36,546,341.60	27,783,578.50
Miscellaneous Long-term Liabilities	2,912,684.44	2,591,744.54
Accum Provision for Postretirement Benefits	175,241,484.82	85,581,948.90
Total	763,674,726.45	593,423,846.06
Total Liabilities and Other Credits	4,555,738,233.95	3,975,701,369.16

October 21, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
September 30, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			315,886,419.00		
Retained Earnings			1,283,080,424.42		
Unappropriated Undistributed Subsidiary Earnings			10,677,341.75		
Total Common Equity			1,917,462,873.86	53.68	54.02
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	9.81	9.89
Long-term Notes Payable to Associated Companies			1,281,000,000.00	35.87	36.09
Total Capitalization			3,549,242,278.86	99.36	100.00
Short-term Notes Payable to Associated Companies			22,909,954.00	0.64	
Total Capitalization and Short-term Debt			3,572,152,232.86	100.00	

October 21, 2009

Kentucky Utilities Company
Summary Trial Balance
September 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,945,924,114.35	5,945,924,114.35
Reserves for Depreciation and Amortization		(2,096,237,735.64)
Depreciation of Plant	(2,085,278,415.62)	
Amortization of Plant	(10,959,320.02)	
Investments		12,813,402.69
Investments in Subsidiary Companies	11,973,141.75	
Investments in Community Development	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	3,500,175.34	3,500,175.34
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		160,677,458.72
Customers - Active	84,984,632.59	
Unbilled Revenues	53,076,000.00	
Income Tax Receivable - Federal	13,939,321.50	
OMU Reserve Funds	6,119,495.23	
IMPA	1,439,644.69	
IMEA	1,354,696.70	
Transmission Sales	605,939.52	
Damage Claims	131,501.61	
Employee Computer Loans	55,730.57	
Working Funds	39,530.00	
Interest and Dividends Receivable	26,226.61	
Wholesale Sales	9,728.51	
Utility Customers		
Charged Off	3,248,673.94	
A/R Miscellaneous	(40,091.00)	
Recoveries	(655,056.58)	
Reserve	(1,065,001.00)	
Accrual	(2,593,514.17)	
Other	5,883,470.19	
Accounts Receivable from Associated Companies		2,521,347.08
E.ON US Services/Louisville Gas and Electric Company	2,521,347.08	

Kentucky Utilities Company
Summary Trial Balance
September 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		90,546,767.98
Coal 1,367,882.07 Tons @ $62.05 MMBtu 32,139,646.63 @ 264.07¢	84,872,096.00	
Fuel Oil 2,833,423.00Gallons @ 199.01¢	5,638,893.99	
Gas Pipeline 8,799.90Mcf @ $4.07	35,777.99	
Plant Materials and Operating Supplies		31,069,507.89
Regular Materials and Supplies	30,411,847.90	
Limestone 92,406.36 Tons @ $7.12	657,660.00	
Other Reagents	(0.01)	
Stores Expense Undistributed	6,786,075.18	6,786,075.18
Allowance Inventory	1,391,971.99	1,391,971.99
Prepayments		5,088,714.59
Taxes	1,406,618.69	
Insurance	543,433.82	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	54,288.47	
Other	3,009,373.61	
Miscellaneous Current Assets		1,366,935.64
Derivative Asset - Non-Hedging	1,366,935.64	
Unamortized Debt Expense		4,890,741.91
Carroll County 2002 Series A due 02/01/32 Var%	87,474.34	
Mercer County 2002 Series A due 02/01/32 Var%	24,413.40	
Muhlenburg County 2002 Series A due 02/01/32 Var%	67,682.11	
Carroll County 2002 Series B due 02/01/32 Var%	60,799.62	
Carroll County 2002 Series C due 10/01/32 Var%	1,614,570.38	
Carroll County 2006 Series B due 10/01/34 Var%	1,150,135.36	
Carroll County 2007 Series A due 02/01/26 5.75%	511,304.70	
Trimble County 2007 Series A due 03/01/37 6.00%	424,576.83	
Carroll County 2008 Series A due 02/01/32 Var%	733,903.61	
Short-Term Portion	215,881.56	
Unamortized Loss on Bonds	13,130,484.93	13,130,484.93
Accumulated Deferred Income Taxes		45,657,483.91
Federal	38,610,849.01	
State	7,046,634.90	
Regulatory Assets		278,150,300.73
Pension and Postretirement Benefits	126,832,090.11	
2009 Winter Storm	57,253,873.88	
Environmental Cost Recovery	29,652,915.00	
Asset Retirement Obligations	29,360,250.98	
SFAS 109 - Deferred Taxes	12,072,972.54	
MISO Exit Fee	11,210,713.42	
FERC Jurisdictional Pension Expense	3,580,998.81	
Fuel Adjustment Clause	2,318,000.00	
2008 Wind Storm	2,195,516.35	
EKPC FERC Transmission Cost	1,478,245.32	
Rate Case Expenses	1,113,016.93	
KCCS Funding	807,697.39	
VA Fuel Component	274,010.00	
Other Deferred Debits	42,576,747.22	42,576,747.22
Total Assets and Other Debits	4,555,738,233.95	4,549,854,763.76

October 21, 2009

Kentucky Utilities Company
Summary Trial Balance
September 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,917,462,873.86
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	315,886,419.00	
Retained Earnings	1,283,080,424.42	
Unappropriated Undistributed Subsidiary Earnings	10,677,341.75	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,281,000,000.00	1,281,000,000.00
Short-term Notes Payable to Associated Companies	22,909,954.00	22,909,954.00
Accounts Payable		134,910,407.77
Regular	131,402,483.29	
Salaries and Wages Accrued	3,536,816.61	
Employee Withholdings Payable	(28,892.13)	
Accounts Payable to Associated Companies		30,142,604.01
Fidelia	17,568,622.08	
E.ON US Services/Louisville Gas and Electric Company	12,573,981.93	
Customers' Deposits	21,778,321.53	21,778,321.53
Taxes Accrued	12,590,839.54	12,590,839.54
Interest Accrued		1,398,777.96
Mercer County 2002 Series A due 02/01/32 Var%	144.63	
Muhlenburg County 2002 Series A due 02/01/32 Var%	1,261.53	
Carroll County 2002 Series B due 02/01/32 Var%	4,068.41	
Carroll County 2002 Series C due 10/01/32 Var%	144.63	
Carroll County 2004 Series A due 10/01/34 Var%	446.01	
Carroll County 2005 Series A due 06/01/35 Var%	605.27	
Carroll County 2005 Series B due 06/01/35 Var%	14,397.28	
Carroll County 2006 Series B due 10/01/34 Var%	18,774.27	
Carroll County 2007 Series A due 02/01/26 5.75%	178,540.00	
Trimble County 2007 Series A due 03/01/37 6.00%	342,604.17	
Carroll County 2008 Series A due 02/01/32 Var%	26,203.16	
Customers' Deposits	734,988.84	
Other	76,599.76	

October 21, 2009

Kentucky Utilities Company
Summary Trial Balance
September 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		19,090,323.83
Vacation Pay Accrued	5,513,490.12	
Franchise Fee Payable	4,892,990.71	
Tax Collections Payable	3,703,341.83	
Customer Overpayments	2,909,612.77	
OMU Excess	1,080,488.58	
Derivative Liabilities - Non-Hedging	624,955.54	
Other	365,444.28	
Accumulated Deferred Income Taxes		375,446,289.14
Federal	325,366,314.49	
State	50,079,974.65	
Investment Tax Credit		96,841,653.53
Advance Coal Credit	96,812,112.46	
Job Development Credit	29,541.07	
Regulatory Liabilities		40,448,277.71
Deferred Taxes	22,562,765.24	
DSM Cost Recovery	8,387,842.33	
Asset Retirement Obligations	4,082,397.51	
MISO Schedule 10 Charges	3,754,698.93	
Spare Parts	1,660,573.70	
Customers' Advances for Construction		2,408,460.40
Line Extensions	1,520,274.02	
Customer Advances	191,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	692,590.48	
Asset Retirement Obligations	33,829,534.81	33,829,534.81
Other Deferred Credits	36,546,341.60	36,546,341.60
Miscellaneous Long-term Liabilities		2,912,684.44
Workers' Compensation	2,533,420.90	
Long-Term Derivative Liabilities-SFAS 133	379,263.54	
Accumulated Provision for Benefits		175,241,484.82
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	64,575,687.96	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(233,923.00)	
Medicare Subsidy - SFAS 106	(5,093,742.14)	
Total Liabilities and Other Credits	4,555,738,233.95	4,555,738,233.95

October 21, 2009

Kentucky Utilities Company
Statement of Cash Flows
September 30, 2009

	Year to Date 2009	Year to Date 2008
Cash Flows from Operating Activities		
Net income	98,795,149.40	116,576,814.53
Items not requiring (providing) cash currently:		
Depreciation	95,336,151.74	95,483,167.69
Amortization	4,404,615.64	3,845,823.09
Deferred income taxes - net	53,072,405.22	(4,411,456.25)
Investment tax credit - net	16,978,567.49	21,919,897.97
Other	19,322,542.04	6,296,377.59
Change in receivables	14,601,636.84	4,470,380.39
Change in inventory	(19,930,318.21)	(19,450,990.18)
Change in allowance inventory	(1,317,552.71)	331,975.42
Change in payables and accrued expenses	(9,452,028.16)	22,887,924.39
Change in regulatory assets	(89,119,882.01)	(4,205,669.30)
Change in regulatory liabilities	(35,004.89)	2,505,793.21
Change in other deferred debits	34,259,939.33	(7,196,809.91)
Change in other deferred credits	14,837,262.28	14,347,434.90
Other	(52,852,940.08)	(9,329,413.64)
Gain on disposal of assets	(78,519.03)	-
Less: Allowance for other funds used during construction	(4,348,503.30)	(5,931,946.90)
Less: Undistributed earnings of subsidiary company	10,078,245.05	(3,406,091.60)
Net cash provided (used) by operating activities	184,551,766.64	234,733,211.40
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(378,724,735.78)	(560,787,124.50)
Less: Allowance for other funds used during construction	4,348,503.30	5,931,946.90
Proceeds received from sales of property	88,820.84	1,175.00
Change in non-hedging derivatives	855,451.85	(679,958.00)
Change in other special funds	(307,816.40)	101,743.47
Change in restricted cash	9,041,466.83	9,776,414.21
Net cash provided (used) by investing activities	(364,698,309.36)	(545,655,802.92)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	99,396,306.65	174,610,243.75
Net change in short-term debt	6,662,500.00	92,629,000.00
Payments for reacquisition of long-term debt	-	(79,593,620.00)
Contributed capital	75,174,822.00	125,000,000.00
Net cash provided (used) by financing activities	181,233,628.65	312,645,623.75
Net Increase (Decrease) in Cash and Cash Equivalents	1,087,085.93	1,723,032.23
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,500,444.59	2,061,542.93

October 21, 2009

Kentucky [illegible]es Company
Analysis of Interest Charges
September 30, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%............	4,067.92	-	49,716.24	289,040.62	55,813.70	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%............	18,923.02	30,983.26	178,873.54	298,121.44	264,904.46	488,263.19
Mercer County 2002 Series A due 02/01/32 Var%............	6,690.41	10,954.43	63,242.44	105,403.68	93,659.49	172,630.09
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,169.86	3,552.79	20,511.05	34,184.98	30,376.04	55,988.14
Carroll County 2002 Series B due 02/01/32 Var%............	2,169.86	3,552.79	20,511.05	34,184.98	30,376.04	55,988.14
Carroll County 2002 Series C due 10/01/32 Var%............	25,120.00	293,256.00	363,135.98	2,843,730.65	1,081,741.32	3,974,058.65
Carroll County 2004 Series A due 10/01/34 Var%............	14,397.26	-	180,986.30	1,524,201.41	207,147.49	2,050,381.96
Carroll County 2005 Series A due 06/01/35 Var%............	-	42,303.14	-	384,887.48	58,966.17	521,205.39
Carroll County 2005 Series B due 06/01/35 Var%............	-	42,303.14	-	383,930.42	58,966.17	518,603.96
Carroll County 2006 Series A due 06/01/36 Var%............	-	86,406.18	-	643,808.01	188,153.33	822,823.90
Carroll County 2006 Series C due 06/01/36 Var%............	-	-	-	338,393.58	(53.57)	517,409.47
Carroll County 2006 Series B due 10/01/34 Var%............	18,774.25	320,775.00	244,272.34	2,110,359.00	1,019,077.03	2,672,049.00
Carroll County 2007 Series A due 02/01/26 5.75%..........	85,651.04	85,651.04	770,859.38	734,444.02	1,022,102.45	929,927.01
Trimble County 2007 Series A due 03/01/37 6.00%..........	44,635.00	44,635.00	401,715.00	378,011.33	532,644.37	475,439.62
Carroll County 2008 Series A due 02/01/32 Var%............	25,558.22	-	346,018.16	-	671,437.91	-
Fidelia..	5,911,304.16	5,059,040.28	50,989,543.12	40,178,938.95	66,362,986.87	51,323,841.69
Hardin Promissory Note..	-	-	-	-	-	136,507.08
Total..	6,159,461.00	6,023,413.05	53,629,384.60	50,281,640.55	71,678,299.27	65,004,157.91
Amortization of Debt Expense - Net						
Amortization of Debt Expense....................................	17,990.13	18,791.81	158,767.57	198,569.56	210,509.29	269,112.69
Amortization of Loss on Reacquired Debt......................	50,358.64	43,174.54	451,202.09	352,108.70	592,352.63	461,242.70
Total..	68,348.77	61,966.35	609,969.66	550,678.26	802,861.92	730,355.39
Other Interest Charges						
Customers' Deposits..	81,600.87	89,003.39	857,247.19	859,969.35	1,149,483.30	1,132,770.88
Other Tax Deficiencies...	-	-	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery..................................	44,684.19	21,006.00	76,913.21	21,006.00	91,193.08	21,006.00
Interest on Debt to Associated Companies......................	816.17	231,982.11	105,365.19	1,500,300.85	912,320.90	2,440,681.02
AFUDC Borrowed Funds..	(89,980.36)	(167,167.97)	(1,098,245.06)	(1,503,721.69)	(1,642,991.78)	(1,848,911.25)
Other Interest Expense...	285,966.10	525,485.70	1,546,607.49	533,011.94	2,124,595.30	533,011.94
Total..	323,086.97	700,309.23	1,487,888.02	1,427,104.15	2,637,480.80	2,291,672.29
Total Interest..	6,550,896.74	6,785,688.63	55,727,242.28	52,259,422.96	75,118,641.99	68,026,185.59

October 21, 2009

Kentucky Utilities Company
Analysis of Taxes Charged and Accrued
September 30, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,160,101.01	11,128,373.44	9,630,909.09
Unemployment	5,371.41	1,437.96	141,244.24	127,969.62
FICA	523,075.48	395,794.52	5,103,217.34	4,156,555.22
Public Service Commission Fee	156,290.97	149,395.89	1,365,248.30	1,343,446.00
Federal Income	(15,413,949.41)	(6,954,607.81)	(16,053,164.64)	23,911,634.66
State Income	(1,500,767.69)	(20,153.12)	677,752.95	7,534,758.50
Miscellaneous	3,031.37	3,154.97	61,666.50	60,429.18
Total Charged to Operating Expense	(14,922,657.71)	(5,264,876.58)	2,424,338.13	46,765,702.27
Taxes Charged to Other Accounts	4,777,652.12	17,926,176.60	17,484,101.51	29,074,668.45
Taxes Accrued on Intercompany Accounts	(257,679.38)	(182,559.22)	(2,036,792.78)	(1,645,503.11)
Total Taxes Charged	(10,402,684.97)	12,478,740.80	17,871,646.86	74,194,867.61

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	11,575,873.64	6,807,303.98	11,560,584.90
Unemployment	48,319.14	85,457.90	132,861.11	915.93
FICA	553,448.29	4,423,531.59	4,483,771.60	493,208.28
Federal Income	546,249.77	(2,448,605.92)	(1,902,356.15)	-
State Income	10,477.99	1,515,926.01	1,526,404.00	-
Kentucky Sales and Use Tax	577,873.18	2,595,202.36	2,664,337.71	508,737.83
Miscellaneous	30,176.34	124,261.28	127,045.02	27,392.60
Totals	8,558,559.95	17,871,646.86	13,839,367.27	12,590,839.54

October 21, 2009

Kentuck[illegible] Company
Summary [illegible] Utility Plant
September 30, 2009

		Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101	**Utility Plant In Service**						
	Electric						
	Electric Distribution	1,109,442,244.91	107,702,409.86	(7,790,402.13)	203,968.45	100,115,976.18	1,209,558,221.09
	Electric General Plant	106,382,748.13	9,401,447.19	(5,998,860.95)	67,553.57	3,470,139.81	109,852,887.94
	Electric Hydro Production	11,831,164.24	141,115.83	-	278,123.83	419,239.66	12,250,403.90
	Electric Intangible Plant	26,829,943.42	38,908,117.86	(15,497,543.61)	-	23,410,574.25	50,240,517.67
	Electric Other Production	503,050,995.17	9,157,460.81	(3,431,984.68)	12,329,547.37	18,055,023.50	521,106,018.67
	Electric Steam Production	1,715,546,561.48	30,244,540.97	(6,907,609.99)	13,895,917.08	37,232,848.06	1,752,779,409.54
	Electric Transmission	525,624,959.67	17,038,538.31	(3,009,569.90)	(26,775,110.30)	(12,746,141.89)	512,878,817.78
	Total 101 Accounts	3,998,708,617.02	212,593,630.83	(42,635,971.26)	-	169,957,659.57	4,168,666,276.59
105	**Plant Held for Future Use**						
	Electric						
	Electric Steam	10,137,561.95	-	-	-	-	10,137,561.95
	Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106	**Completed Construction Not Classified**						
	Electric						
	Electric Distribution	121,899,315.73	(40,730,466.77)	-	-	(40,730,466.77)	81,168,848.96
	Electric General Plant	2,677,508.16	(1,994,500.10)	-	-	(1,994,500.10)	683,008.06
	Electric Hydro Production	11,732.37	63,527.63	-	-	63,527.63	75,260.00
	Electric Intangible Plant	1,058,583.09	231,083.74	-	-	231,083.74	1,289,666.83
	Electric Other Production	210,168.91	1,775,251.11	-	-	1,775,251.11	1,985,420.02
	Electric Steam Production	307,830,864.65	180,706,492.89	-	-	180,706,492.89	488,537,357.54
	Electric Transmission	3,483,426.89	7,897,655.86	-	-	7,897,655.86	11,381,082.75
	Total 106 Accounts	437,171,599.80	147,949,044.36	-	-	147,949,044.36	585,120,644.16
121	**Nonutility Property**						
	Common						
	Nonutility Property	179,120.94	-	-	-	-	179,120.94
	Total 121001	179,120.94	-	-	-	-	179,120.94
107	**Construction Work In Progress**						
	Electric						
	Electric	1,176,440,171.77	5,559,459.88	-	-	5,559,459.88	1,181,999,631.65
	Total 107001	1,176,440,171.77	5,559,459.88	-	-	5,559,459.88	1,181,999,631.65
	Total Plant (Non-CWIP)	4,446,196,899.71	360,542,675.19	(42,635,971.26)	-	317,906,703.93	4,764,103,603.64
	Total Plant + CWIP	5,622,637,071.48	366,102,135.07	(42,635,971.26)	-	323,466,163.81	5,946,103,235.29
	Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	366,102,135.07	(42,635,971.26)	-	323,466,163.81	5,945,924,114.35

October 21, 2009

Kentucky Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
September 30, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(19,043,568.84)	7,790,402.13	(15,994.88)	-	-	-	(211,385.72)	(398,565,762.16)
Electric Distribution - ARO	(6,386.40)	(136.98)	-	-	-	-	-	-	(6,523.38)
Electric General Plant	(54,006,194.03)	(3,836,806.56)	5,998,860.95	11,437.12	-	-	-	(21,173.86)	(51,853,876.38)
Electric Hydro Production	(7,591,558.65)	(72,384.66)	-	(91,028.80)	-	-	-	-	(7,754,972.11)
Electric Hydro Production - ARO	(1,811.92)	(38.88)	-	-	-	-	-	-	(1,850.80)
Electric Other Production	(130,098,501.03)	(12,404,040.48)	3,431,984.68	(1,887,563.75)	-	-	-	-	(140,958,120.58)
Electric Other Production - ARO	(32,068.56)	(1,832.13)	-	-	-	-	-	-	(33,900.69)
Electric Steam Production	(904,811,374.27)	(40,486,841.81)	6,903,193.47	(5,374,522.03)	-	-	-	(255,166.15)	(944,024,710.79)
Electric Steam Production - ARO	(4,615,135.75)	(223,428.67)	4,416.52	(2,024.05)	-	-	-	-	(4,836,171.95)
Electric Transmission	(208,518,367.58)	(5,831,318.27)	3,009,569.90	7,384,544.39	-	-	-	(278,853.56)	(204,234,425.12)
Electric Transmission - ARO	(4,580.08)	(72.99)	-	2,024.05	-	-	-	-	(2,629.02)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(81,900,470.27)	27,138,427.65	26,872.05	-	-	-	(766,579.29)	(1,752,272,942.98)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(6,104,553.21)	-	(35,620.28)	-	9,397,737.06	-	-	(196,614,751.77)
Electric General Plant	152,325.56	(26,529.67)	-	(1,924.92)	-	78,315.53	-	-	202,186.50
Electric Hydro Production	(669,680.63)	(5,067.99)	-	(16,118.61)	-	-	-	-	(690,867.23)
Electric Other Production	(1,644,839.43)	(590,062.19)	-	(95,060.99)	-	241,383.21	-	-	(2,088,579.40)
Electric Steam Production	(85,505,341.30)	(9,141,533.08)	-	(31,815.78)	-	1,839,982.14	-	-	(92,838,708.02)
Electric Transmission	(140,724,513.55)	(2,113,157.89)	-	180,540.58	-	2,631,231.68	-	-	(140,025,899.18)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(17,980,904.03)	-	-	-	14,188,649.62	-	-	(432,056,619.10)
Salvage									
Electric Distribution	45,600,359.15	1,430,378.91	-	-	-	-	(141,171.06)	-	46,889,567.00
Electric General Plant	147,868.89	2,148.31	-	-	-	-	(258.63)	-	149,758.57
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	2,149,060.18	-	-	-	-	(20,000.00)	-	16,651,706.60
Electric Transmission	22,387,639.10	451,410.12	-	-	-	-	(401,245.47)	-	22,437,803.75
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	4,033,194.82	-	-	-	-	(562,675.16)	-	86,794,246.22
Total Reserves									
Electric Distribution	(541,357,171.04)	(23,717,743.14)	7,790,402.13	(51,615.16)	-	9,397,737.06	(141,171.06)	(211,385.72)	(548,290,946.93)
Electric Distribution - ARO	(6,386.40)	(136.98)	-	-	-	-	-	-	(6,523.38)
Electric General Plant	(53,705,999.58)	(3,861,187.92)	5,998,860.95	9,512.20	-	78,315.53	(258.63)	(21,173.86)	(51,501,931.31)
Electric Hydro Production	(8,214,917.89)	(77,255.35)	-	(107,147.41)	-	-	-	-	(8,399,320.65)
Electric Hydro Production - ARO	(1,811.92)	(38.88)	-	-	-	-	-	-	(1,850.80)
Electric Other Production	(131,124,448.85)	(12,994,102.67)	3,431,984.68	(1,982,624.74)	-	241,383.21	-	-	(142,427,808.37)
Electric Other Production - ARO	(32,068.56)	(1,832.13)	-	-	-	-	-	-	(33,900.69)
Electric Steam Production	(975,794,069.15)	(47,479,314.71)	6,903,193.47	(5,406,337.81)	-	1,839,982.14	(20,000.00)	(255,166.15)	(1,020,211,712.21)
Electric Steam Production - ARO	(4,615,135.75)	(223,428.67)	4,416.52	(2,024.05)	-	-	-	-	(4,836,171.95)
Electric Transmission	(326,855,242.03)	(7,493,066.04)	3,009,569.90	7,565,084.97	-	2,631,231.68	(401,245.47)	(278,853.56)	(321,822,520.55)
Electric Transmission - ARO	(4,580.08)	(72.99)	-	2,024.05	-	-	-	-	(2,629.02)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(95,848,179.48)	27,138,427.65	26,872.05	-	14,188,649.62	(562,675.16)	(766,579.29)	(2,097,535,315.86)
Retirement Work In Process									
Electric	11,271,917.81	-	-	47,361.17	(12,859,395.17)	14,608,709.92	(561,763.27)	(249,930.22)	12,256,900.24
	11,271,917.81	-	-	47,361.17	(12,859,395.17)	14,608,709.92	(561,763.27)	(249,930.22)	12,256,900.24
YTD Activity	(2,030,439,913.44)	(95,848,179.48)	27,138,427.65	74,233.22	(12,859,395.17)	28,797,359.54	(1,124,438.43)	(1,016,509.51)	(2,085,278,415.62)
Amortization									
Electric	(22,052,247.99)	(4,404,615.64)	15,497,543.61	-	-	-	-	-	(10,959,320.02)
	(22,052,247.99)	(4,404,615.64)	15,497,543.61	-	-	-	-	-	(10,959,320.02)
Depreciation & Amortization Total	(2,052,492,161.43)	(100,252,795.12)	42,635,971.26	74,233.22	(12,859,395.17)	28,797,359.54	(1,124,438.43)	(1,016,509.51)	(2,096,237,735.64)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,849,686,378.71

October 21, 2009

KU Monthly Report to KPSC – August 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

August 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
August 31, 2009

Kentucky ‹ ‹s Company
Comparative Statement of Income
August 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	119,140,501.64	124,680,933.27	(5,540,431.63)	(4.44)
Total Operating Revenues	119,140,501.64	124,680,933.27	(5,540,431.63)	(4.44)
Fuel for Electric Generation	43,327,864.73	49,121,323.98	(5,793,459.25)	(11.79)
Power Purchased	15,423,849.18	19,199,377.44	(3,775,528.26)	(19.66)
Other Operation Expenses	18,256,887.72	16,435,071.94	1,821,815.78	11.08
Maintenance	6,729,171.35	7,172,610.60	(443,439.25)	(6.18)
Depreciation	10,663,300.98	11,993,275.42	(1,329,974.44)	(11.09)
Amortization Expense	552,267.73	458,287.07	93,980.66	20.51
Regulatory Credits	(201,990.13)	(191,183.37)	(10,806.76)	(5.65)
Taxes				
Federal Income	(98,276.65)	3,766,272.60	(3,864,549.25)	(102.61)
State Income	(82,569.81)	811,975.49	(894,545.30)	(110.17)
Deferred Federal Income - Net	5,032,411.89	-	5,032,411.89	100.00
Deferred State Income - Net	1,008,449.86	-	1,008,449.86	100.00
Property and Other	1,988,053.67	1,604,846.39	383,207.28	23.88
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	177,241.15	166,434.43	10,806.72	6.49
Total Operating Expenses	102,776,661.67	110,538,291.99	(7,761,630.32)	(7.02)
Net Operating Income	16,363,839.97	14,142,641.28	2,221,198.69	15.71
Other Income Less Deductions				
Other Income Less Deductions	(11,188.28)	3,235,661.23	(3,246,849.51)	(100.35)
AFUDC - Equity	207,150.33	478,351.28	(271,200.95)	(56.69)
Total Other Income Less Deductions	195,962.05	3,714,012.51	(3,518,050.46)	(94.72)
Income Before Interest Charges	16,559,802.02	17,856,653.79	(1,296,851.77)	(7.26)
Interest on Long-term Debt	6,174,244.05	5,785,935.46	388,308.59	6.71
Amortization of Debt Expense - Net	68,333.82	61,604.34	6,729.48	10.92
Other Interest Expenses	214,082.62	374,086.35	(160,003.73)	(42.77)
AFUDC - Borrowed Funds	(88,242.00)	(161,575.82)	73,333.82	45.39
Total Interest Charges	6,368,418.49	6,060,050.33	308,368.16	5.09
Net Income	10,191,383.53	11,796,603.46	(1,605,219.93)	(13.61)

September 22, 2009

Kentucky L   es Company
Comparative Statement of Income
August 31, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	906,842,551.25	920,796,982.44	(13,954,431.19)	(1.52)
Total Operating Revenues	906,842,551.25	920,796,982.44	(13,954,431.19)	(1.52)
Fuel for Electric Generation	295,833,098.85	332,621,722.07	(36,788,623.22)	(11.06)
Power Purchased	138,208,611.41	147,651,950.41	(9,443,339.00)	(6.40)
Other Operation Expenses	128,206,912.95	116,243,001.21	11,963,911.74	10.29
Maintenance	116,966,578.71	60,277,548.93	56,689,029.78	94.05
Depreciation	84,639,266.34	83,605,543.32	1,033,723.02	1.24
Amortization Expense	3,850,611.58	3,385,606.61	465,004.97	13.73
Regulatory Credits	(1,590,236.16)	(1,503,021.28)	(87,214.88)	(5.80)
Taxes				
Federal Income	(639,215.23)	30,866,242.47	(31,505,457.70)	(102.07)
State Income	2,178,520.64	7,554,911.62	(5,376,390.98)	(71.16)
Deferred Federal Income - Net	13,944,612.69	(6,622,475.69)	20,567,088.38	310.57
Deferred State Income - Net	1,324,279.56	(1,773,804.06)	3,098,083.62	174.66
Property and Other	15,807,690.43	13,609,424.76	2,198,265.67	16.15
Investment Tax Credit	10,708,227.49	12,924,999.97	(2,216,772.48)	(17.15)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	1,392,249.02	1,307,043.65	85,205.37	6.52
Total Operating Expenses	810,746,500.52	799,565,587.44	11,180,913.08	1.40
Net Operating Income	96,096,050.73	121,231,395.00	(25,135,344.27)	(20.73)
Other Income Less Deductions				
Other Income Less Deductions	8,576,788.71	21,212,605.05	(12,635,816.34)	(59.57)
AFUDC - Equity	3,039,031.65	3,933,317.94	(894,286.29)	(22.74)
Total Other Income Less Deductions	11,615,820.36	25,145,922.99	(13,530,102.63)	(53.81)
Income Before Interest Charges	107,711,871.09	146,377,317.99	(38,665,446.90)	(26.41)
Interest on Long-term Debt	47,469,923.60	44,258,227.50	3,211,696.10	7.26
Amortization of Debt Expense - Net	541,620.89	488,711.91	52,908.98	10.83
Other Interest Expenses	2,173,065.75	2,063,348.64	109,717.11	5.32
AFUDC - Borrowed Funds	(1,008,264.70)	(1,336,553.72)	328,289.02	24.56
Total Interest Charges	49,176,345.54	45,473,734.33	3,702,611.21	8.14
Net Income	58,535,525.55	100,903,583.66	(42,368,058.11)	(41.99)

September 22, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
August 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,390,087,622.06	1,333,067,604.93	57,020,017.13	4.28
Total Operating Revenues	1,390,087,622.06	1,333,067,604.93	57,020,017.13	4.28
Fuel for Electric Generation	475,610,847.52	477,851,360.41	(2,240,512.89)	(0.47)
Power Purchased	211,733,429.30	198,265,969.60	13,467,459.70	6.79
Other Operation Expenses	178,876,139.38	168,329,742.62	10,546,396.76	6.27
Maintenance	145,467,822.26	95,497,737.87	49,970,084.39	52.33
Depreciation	132,148,732.11	123,694,732.86	8,453,999.25	6.83
Amortization Expense	5,694,660.82	5,045,712.03	648,948.79	12.86
Regulatory Credits	(2,363,763.59)	(2,221,970.49)	(141,793.10)	(6.38)
Taxes				
Federal Income	11,679,171.11	25,392,988.30	(13,713,817.19)	(54.01)
State Income	4,677,342.95	11,176,814.70	(6,499,471.75)	(58.15)
Deferred Federal Income - Net	10,373,580.36	(8,520,241.79)	18,893,822.15	221.75
Deferred State Income - Net	(60,785.24)	(1,942,920.66)	1,882,135.42	96.87
Property and Other	22,859,359.99	19,275,723.30	3,583,636.69	18.59
Investment Tax Credit	23,050,125.49	36,399,999.97	(13,349,874.48)	(36.68)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,066,780.73	1,927,399.89	139,380.84	7.23
Total Operating Expenses	1,221,728,735.43	1,149,589,942.06	72,138,793.37	6.28
Net Operating Income	168,358,886.63	183,477,662.87	(15,118,776.24)	(8.24)
Other Income Less Deductions				
Other Income Less Deductions	16,745,373.63	30,026,332.19	(13,280,958.56)	(44.23)
AFUDC - Equity	5,146,682.27	5,456,672.21	(309,989.94)	(5.68)
Total Other Income Less Deductions	21,892,055.90	35,483,004.40	(13,590,948.50)	(38.30)
Income Before Interest Charges	190,250,942.53	218,960,667.27	(28,709,724.74)	(13.11)
Interest on Long-term Debt	71,542,251.32	63,264,479.50	8,277,771.82	13.08
Amortization of Debt Expense - Net	796,479.50	727,785.70	68,693.80	9.44
Other Interest Expenses	4,734,882.45	4,131,481.09	603,401.36	14.61
AFUDC - Borrowed Funds	(1,720,179.39)	(1,774,875.79)	54,696.40	3.08
Total Interest Charges	75,353,433.88	66,348,870.50	9,004,563.38	13.57
Net Income	114,897,508.65	152,611,796.77	(37,714,288.12)	(24.71)

September 22, 2009

Kentucky U. .es Company
Analysis of Retained Earnings
August 31, 2009

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance at Beginning of Period............................	1,231,745,057.44	11,561,701.35	1,174,207,029.97	20,755,586.80	1,114,019,861.27	24,580,772.40
Add:						
Net Income for Period..................................	10,191,383.53	-	58,535,525.55	-	114,897,508.65	-
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc...	507,228.00	(507,228.00)	(1,148,886.55)	1,148,886.55	(4,823,700.95)	4,823,700.95
Dividends Received Current Year -EE Inc...	-	-	10,850,000.00	(10,850,000.00)	18,350,000.00	(18,350,000.00)
Balance at End of Period......................................	1,242,443,668.97	11,054,473.35	1,242,443,668.97	11,054,473.35	1,242,443,668.97	11,054,473.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	11,054,473.35	11,054,473.35	11,054,473.35
Statutory Tax Rate...	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary.....................	4,300,190.13	4,300,190.13	4,300,190.13

Combined Balance of Retained Earnings	12 MONTHS 7/31/2009	12 MONTHS 7/31/2008
Retained Earnings at Beginning of Period....................	1,138,600,633.67	985,981,148.90
Net Income..	114,897,508.65	152,611,796.77
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period..........................	1,253,498,142.32	1,138,600,633.67

September 22, 2009

Kentucky .. Company
Comparative Balance Sheets as of August 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,915,739,813.78	5,415,699,444.44
Less Reserves for Depreciation and Amortization	2,091,222,993.07	2,015,375,147.49
Total	3,824,516,820.71	3,400,324,296.95
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	12,350,273.35	25,876,572.40
Special Funds	-	5,752,910.35
Other	411,140.00	411,140.00
Total	13,190,534.29	32,469,743.69
Current and Accrued Assets		
Cash	4,933,892.73	2,086,966.11
Special Deposits	-	358,199.63
Temporary Cash Investments	269.25	17,814.92
Accounts Receivable-Less Reserve	172,447,641.57	184,189,601.55
Accounts Receivable from Associated Companies	9,954.45	3,957,090.64
Materials and Supplies-At Average Cost		
Fuel	89,780,591.41	55,005,776.43
Plant Materials and Operating Supplies	30,636,834.73	29,348,359.42
Stores Expense	6,776,184.29	6,400,985.38
Allowance Inventory	1,489,445.83	83,388.05
Prepayments	4,785,430.64	4,511,489.71
Miscellaneous Current and Accrued Assets	4,618,706.94	186,853.12
Total	315,478,951.84	286,146,524.96
Deferred Debits and Other		
Unamortized Debt Expense	4,904,695.69	5,490,890.72
Unamortized Loss on Bonds	13,180,843.57	11,772,367.61
Accumulated Deferred Income Taxes	45,406,063.92	49,891,465.49
Deferred Regulatory Assets	224,451,109.60	84,306,182.02
Other Deferred Debits	42,798,571.66	69,002,182.70
Total	330,741,284.44	220,463,088.54
Total Assets and Other Debits	4,483,927,591.28	3,939,403,654.14

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	315,711,597.00	165,000,000.00
Retained Earnings	1,242,443,668.97	1,114,019,861.27
Unappropriated Undistributed Subsidiary Earnings	11,054,473.35	24,580,772.40
Total Common Equity	1,877,028,428.01	1,611,419,322.36
Pollution Control Bonds	350,779,405.00	253,159,520.00
LT Notes Payable to Associated Companies	1,281,000,000.00	1,106,000,000.00
Total Long-term Debt	1,631,779,405.00	1,359,159,520.00
Total Capitalization	3,508,807,833.01	2,970,578,842.36
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	11,877,954.00	129,285,454.00
Accounts Payable	137,388,459.01	169,138,838.50
Accounts Payable to Associated Companies	27,648,043.10	22,743,322.35
Customer Deposits	21,152,164.53	20,272,626.76
Taxes Accrued	21,169,209.51	12,052,965.07
Interest Accrued	18,146,444.36	15,717,677.70
Miscellaneous Current and Accrued Liabilities	18,058,244.29	14,937,777.07
Total	255,440,518.80	384,148,661.45
Deferred Credits and Other		
Accumulated Deferred Income Taxes	338,504,057.66	328,797,010.68
Investment Tax Credit	90,581,158.28	67,714,572.27
Regulatory Liabilities	42,025,982.54	38,834,699.57
Customer Advances for Construction	2,398,019.02	2,403,814.00
Asset Retirement Obligations	33,958,359.16	31,532,159.10
Other Deferred Credits	34,141,257.26	26,456,568.27
Miscellaneous Long-term Liabilities	2,828,920.73	3,338,956.78
Accum Provision for Postretirement Benefits	175,241,484.82	85,598,369.66
Total	719,679,239.47	584,676,150.33
Total Liabilities and Other Credits	4,483,927,591.28	3,939,403,654.14

September 22, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
August 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			315,711,597.00		
Retained Earnings			1,242,443,668.97		
Unappropriated Undistributed Subsidiary Earnings			11,054,473.35		
Total Common Equity			1,877,028,428.01	53.31	53.49
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	9.96	10.00
Long-term Notes Payable to Associated Companies			1,281,000,000.00	36.39	36.51
Total Capitalization			3,508,807,833.01	99.66	100.00
Short-term Notes Payable to Associated Companies			11,877,954.00	0.34	
Total Capitalization and Short-term Debt			3,520,685,787.01	100.00	

September 22, 2009

Kentucky Utilities Company
Summary Trial Balance
August 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,915,739,813.78	5,915,739,813.78
Reserves for Depreciation and Amortization		(2,091,222,993.07)
Depreciation of Plant	(2,080,736,655.85)	
Amortization of Plant	(10,486,337.22)	
Investments		13,190,534.29
Investments in Subsidiary Companies	12,350,273.35	
Investments in Community Development	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	4,933,892.73	4,933,892.73
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		172,447,641.57
Customers - Active	74,088,188.85	
Unbilled Revenues	70,737,511.05	
Income Tax Receivable - Federal	8,874,374.27	
OMU Reserve Funds	6,088,828.49	
IMPA	3,849,374.79	
IMEA	3,622,237.79	
Transmission Sales	641,935.74	
Wholesale Sales	197,364.74	
Damage Claims	183,093.73	
Electricity Swaps	124,753.45	
Employee Computer Loans	58,545.20	
Working Funds	39,530.00	
Interest and Dividends Receivable	4,459.41	
Other	4,962,584.87	
Utility Customers		
Charged Off	3,096,196.56	
A/R Miscellaneous	(31,322.00)	
Recoveries	(734,419.26)	
Reserve	(993,922.00)	
Accrual	(2,361,674.11)	
Accounts Receivable from Associated Companies		9,954.45
E.ON US Services/Louisville Gas and Electric Company	9,954.45	

September 22, 2009

Kentucky Utilities Company
Summary Trial Balance
August 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		89,780,591.41
Coal 1,371,901.16 Tons @ $61.19 MMBtu 32,139,646.63 @ 261.21¢	83,952,210.34	
Fuel Oil 2,920,288.00 Gallons @ 198.59¢	5,799,338.77	
Gas Pipeline 7,224.60 Mcf @ $4.02	29,042.30	
Plant Materials and Operating Supplies		30,636,834.73
Regular Materials and Supplies	29,988,316.49	
Limestone 82,473.36 Tons @ $8.02	648,518.24	
Stores Expense Undistributed	6,776,184.29	6,776,184.29
Allowance Inventory	1,489,445.83	1,489,445.83
Prepayments		4,785,430.64
Taxes	1,562,909.66	
Insurance	900,652.75	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	63,204.70	
Other	2,183,663.53	
Miscellaneous Current Assets		4,618,706.94
Derivative Asset - Non-Hedging	4,618,706.94	
Unamortized Debt Expense		4,904,695.69
Carroll County 2002 Series A due 02/01/32 Var%	91,920.34	
Carroll County 2002 Series B due 02/01/32 Var%	63,893.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	71,127.11	
Mercer County 2002 Series A due 02/01/32 Var%	25,648.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,694,075.78	
Carroll County 2006 Series B due 10/01/34 Var%	1,201,871.59	
Carroll County 2007 Series A due 02/01/26 5.75%	547,234.23	
Trimble County 2007 Series A due 03/01/37 6.00%	441,933.78	
Carroll County 2008 Series A due 02/01/32 Var%	766,990.84	
Unamortized Loss on Bonds	13,180,843.57	13,180,843.57
Accumulated Deferred Income Taxes		45,406,063.92
Federal	38,354,452.88	
State	7,051,611.04	
Regulatory Assets		224,451,109.60
Pension and Postretirement Benefits	126,832,090.11	
Environmental Cost Recovery	30,530,771.00	
Asset Retirement Obligations	29,461,552.82	
SFAS 109 - Deferred Taxes	11,688,373.42	
MISO Exit Fee	11,374,400.74	
Fuel Adjustment Clause	3,516,000.00	
FERC Jurisdictional Pension Expense	3,490,917.21	
2008 Wind Storm	2,195,516.35	
VA Fuel Component	1,896,257.00	
EKPC FERC Transmission Cost	1,506,136.74	
Rate Case Expenses	1,151,396.82	
KCCS Funding	807,697.39	
Other Deferred Debits	42,798,571.66	42,798,571.66
Total Assets and Other Debits	4,483,927,591.28	4,483,927,591.28

September 22, 2009

Kentucky Utilities Company
Summary Trial Balance
August 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,877,028,428.01
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	315,711,597.00	
Retained Earnings	1,242,443,668.97	
Unappropriated Undistributed Subsidiary Earnings	11,054,473.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,281,000,000.00	1,281,000,000.00
Short-term Notes Payable to Associated Companies	11,877,954.00	11,877,954.00
Accounts Payable		137,388,459.01
Regular	134,550,829.86	
Salaries and Wages Accrued	2,879,130.66	
Employee Withholdings Payable	(41,501.51)	
Accounts Payable to Associated Companies		27,648,043.10
E.ON US Services/Louisville Gas and Electric Company	27,648,043.10	
Customers' Deposits	21,152,164.53	21,152,164.53
Taxes Accrued	21,169,209.51	21,169,209.51
Interest Accrued		18,146,444.36
Mercer County 2000 Series A due 05/01/23 Var%	4,368.82	
Carroll County 2002 Series A due 02/01/32 Var%	37,157.91	
Carroll County 2002 Series B due 02/01/32 Var%	4,260.80	
Muhlenburg County 2002 Series A due 02/01/32 Var%	4,260.80	
Mercer County 2002 Series A due 02/01/32 Var%	13,137.52	
Carroll County 2002 Series C due 10/01/32 Var%	5,071.94	
Carroll County 2004 Series A due 10/01/34 Var%	15,287.70	
Carroll County 2006 Series B due 10/01/34 Var%	19,306.87	
Carroll County 2007 Series A due 02/01/26 5.75%	256,953.13	
Trimble County 2007 Series A due 03/01/37 6.00%	133,905.00	
Carroll County 2008 Series A due 02/01/32 Var%	26,907.89	
Fidelia	16,834,817.92	
Customers' Deposits	669,894.04	
Other	121,114.02	

September 22, 2009

Kentucky Utilities Company
Summary Trial Balance
August 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		18,058,244.29
Vacation Pay Accrued	5,780,053.25	
Franchise Fee Payable	3,375,414.49	
Tax Collections Payable	3,314,693.37	
Customer Overpayments	3,197,949.88	
OMU Excess	1,215,549.65	
Derivative Liabilities - Non-Hedging	444,553.60	
Other	730,030.05	
Accumulated Deferred Income Taxes		338,504,057.66
Federal	293,550,636.17	
State	44,953,421.49	
Investment Tax Credit		90,581,158.28
Advance Coal Credit	90,541,772.46	
Job Development Credit	39,385.82	
Regulatory Liabilities		42,025,982.54
Deferred Taxes	23,494,636.14	
DSM Cost Recovery	9,174,591.97	
Asset Retirement Obligations	4,062,488.31	
MISO Schedule 10 Charges	3,717,327.52	
Spare Parts	1,576,938.60	
Customers' Advances for Construction		2,398,019.02
Line Extensions	1,517,583.94	
Customer Advances	187,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	688,839.18	
Asset Retirement Obligations	33,958,359.16	33,958,359.16
Other Deferred Credits	34,141,257.26	34,141,257.26
Miscellaneous Long-term Liabilities		2,828,920.73
Workers' Compensation	2,772,932.78	
Long-Term Derivative Liabilities-SFAS 133	55,987.95	
Accumulated Provision for Benefits		175,241,484.82
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	64,575,687.96	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(233,923.00)	
Medicare Subsidy - SFAS 106	(5,093,742.14)	
Total Liabilities and Other Credits	4,483,927,591.28	4,483,927,591.28

September 22, 2009

Kentucky Utilities Company
Statement of Cash Flows
August 30, 2009

	Year to Date 2009	Year to Date 2008
Cash Flows from Operating Activities		
Net income	58,535,525.55	100,903,583.66
Items not requiring (providing) cash currently:		
Depreciation	84,639,266.34	83,605,543.32
Amortization	3,850,611.58	3,385,606.61
Deferred income taxes - net	15,268,892.25	(3,637,719.97)
Investment tax credit - net	10,708,227.49	12,715,459.95
Other	17,428,646.16	608,285.52
Change in receivables	11,528,706.46	603,615.55
Change in inventory	(18,721,577.59)	(15,159,659.38)
Change in allowance inventory	(1,415,026.55)	299,506.06
Change in payables and accrued expenses	11,069,129.61	14,312,798.85
Change in regulatory assets	(35,420,690.88)	(2,140,931.40)
Change in regulatory liabilities	1,542,699.94	1,113,663.49
Change in other deferred debits	34,262,546.01	(1,749,004.40)
Change in other deferred credits	12,432,177.94	13,020,424.67
Other	(48,563,895.90)	(6,464,057.77)
Gain on disposal of assets	(50,281.89)	-
Less: Allowance for other funds used during construction	(4,047,296.35)	(5,269,871.66)
Less: Undistributed earnings of subsidiary company	9,701,113.45	(3,373,704.40)
Net cash provided (used) by operating activities	162,748,773.62	192,773,538.70
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(340,134,057.04)	(483,446,107.23)
Less: Allowance for other funds used during construction	4,047,296.35	5,269,871.66
Proceeds received from sales of property	50,281.89	1,175.00
Change in non-hedging derivatives	(2,955,984.93)	202,254.46
Change in other special funds	(307,816.40)	162,973.72
Change in restricted cash	9,041,466.83	10,627,356.15
Net cash provided (used) by investing activities	(330,258,813.30)	(467,182,476.24)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	99,400,343.00	174,702,827.87
Net change in short-term debt	(4,369,500.00)	106,066,000.00
Payments for reacquisition of long-term debt	-	(79,593,620.00)
Contributed capital	75,000,000.00	75,000,000.00
Net cash provided (used) by financing activities	170,030,843.00	276,175,207.87
Net Increase (Decrease) in Cash and Cash Equivalents	2,520,803.32	1,766,270.33
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	4,934,161.98	2,104,781.03

September 22, 2009

Kentucky U[illegible]s Company
Analysis of Interest Charges
August 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%............	4,721.75	-	45,648.32	289,040.62	51,745.78	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%............	21,331.39	31,023.29	159,950.52	267,138.18	276,964.70	521,807.41
Carroll County 2002 Series B due 02/01/32 Var%............	2,446.03	3,557.38	18,341.19	30,632.19	31,758.97	59,834.58
Muhlenburg County 2002 Series A due 02/01/32 Var%.......	2,446.03	3,557.38	18,341.19	30,632.19	31,758.97	59,834.58
Mercer County 2002 Series A due 02/01/32 Var%............	7,541.92	10,968.58	56,552.03	94,449.25	97,923.51	184,489.96
Carroll County 2002 Series C due 10/01/32 Var%............	28,205.33	298,701.33	338,015.98	2,550,474.65	1,349,877.32	3,988,802.65
Carroll County 2004 Series A due 10/01/34 Var%............	16,493.15	-	166,589.04	1,524,201.41	192,750.23	2,219,437.52
Carroll County 2005 Series A due 06/01/35 Var%............	-	40,505.84	-	342,584.34	101,269.31	523,659.78
Carroll County 2005 Series B due 06/01/35 Var%............	-	40,505.84	-	341,627.28	101,269.31	513,712.51
Carroll County 2006 Series A due 06/01/36 Var%............	-	88,521.63	-	557,401.83	274,559.51	791,924.01
Carroll County 2006 Series C due 06/01/36 Var%............	-	-	-	338,393.58	(53.57)	572,748.82
Carroll County 2006 Series B due 10/01/34 Var%............	20,638.36	286,612.50	225,498.09	1,789,584.00	1,321,077.78	2,532,369.00
Carroll County 2007 Series A due 02/01/26 5.75%...........	85,651.05	88,506.08	685,208.34	648,792.98	1,022,102.45	907,359.82
Trimble County 2007 Series A due 03/01/37 6.00%............	44,635.00	46,122.83	357,080.00	333,376.33	532,644.37	462,309.49
Carroll County 2008 Series A due 02/01/32 Var%............	28,829.86	-	320,459.94	-	645,879.69	-
Fidelia..	5,911,304.18	4,847,352.78	45,078,238.96	35,119,898.67	65,510,722.99	49,456,029.17
Hardin Promissory Note...	-	-	-	-	-	181,119.58
Total..	6,174,244.05	5,785,935.46	47,469,923.60	44,258,227.50	71,542,251.32	63,264,479.50
Amortization of Debt Expense - Net						
Amortization of Debt Expense..................................	17,975.18	18,649.52	140,777.44	179,777.75	211,310.97	273,339.54
Amortization of Loss on Reacquired Debt........................	50,358.64	42,954.82	400,843.45	308,934.16	585,168.53	454,446.16
Total..	68,333.82	61,604.34	541,620.89	488,711.91	796,479.50	727,785.70
Other Interest Charges						
Customers' Deposits..	53,303.09	97,076.27	775,646.32	770,965.96	1,156,885.82	1,121,521.47
Other Tax Deficiencies...	-	-	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery.....................................	2,258.22	-	32,229.02	-	67,514.89	-
Interest on Debt to Associated Companies........................	-	277,010.08	104,549.02	1,268,318.74	1,143,486.84	2,989,319.68
AFUDC Borrowed Funds...	(88,242.00)	(161,575.82)	(1,008,264.70)	(1,336,553.72)	(1,720,179.39)	(1,774,875.79)
Other Interest Expense..	158,521.31	-	1,260,641.39	7,526.24	2,364,114.90	7,526.24
Total..	125,840.62	212,510.53	1,164,801.05	726,794.92	3,014,703.06	2,356,605.30
Total Interest..	6,368,418.49	6,060,050.33	49,176,345.54	45,473,734.33	75,353,433.88	66,348,870.50

September 22, 2009

Kentucky Utilities Company
Analysis of Taxes Charged and Accrued
August 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,160,101.01	9,824,083.28	8,470,808.08
Unemployment	3,905.51	13,007.69	135,872.83	126,531.66
FICA	513,315.64	279,958.01	4,580,141.86	3,760,760.70
Public Service Commission Fee	156,290.97	149,395.89	1,208,957.33	1,194,050.11
Federal Income	(98,276.65)	3,766,272.60	(639,215.23)	30,866,242.47
State Income	(82,569.81)	811,975.49	2,178,520.64	7,554,911.62
Miscellaneous	10,251.39	2,383.79	58,635.13	57,274.21
Total Charged to Operating Expense	1,807,207.21	6,183,094.48	17,346,995.84	52,030,578.85
Taxes Charged to Other Accounts	(306,202.08)	2,770,027.38	12,706,449.39	11,148,491.85
Taxes Accrued on Intercompany Accounts	(217,426.24)	(186,990.96)	(1,779,113.40)	(1,462,943.89)
Total Taxes Charged	1,283,578.89	8,766,130.90	28,274,331.83	61,716,126.81

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	10,221,861.64	6,807,303.98	10,206,572.90
Unemployment	48,319.14	84,882.06	132,861.11	340.09
FICA	553,448.29	3,991,294.47	4,088,404.89	456,337.87
Federal Income	546,249.77	9,257,234.45	1,851,663.85	7,951,820.37
State Income	10,477.99	2,295,662.08	158,241.00	2,147,899.07
Kentucky Sales and Use Tax	577,873.18	2,301,740.42	2,499,818.34	379,795.26
Miscellaneous	30,176.34	121,656.71	125,389.10	26,443.95
Totals	8,558,559.95	28,274,331.83	15,663,682.27	21,169,209.51

September 22, 2009

Kentucky . Company
Summary of Utility Plant
August 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	52,929,605.34	(2,168,664.04)	4,959.77	50,765,901.07	1,160,208,145.98
Electric General Plant	106,382,748.13	9,046,125.46	(5,867,748.47)	-	3,178,376.99	109,561,125.12
Electric Hydro Production	11,831,164.24	141,115.83	-	278,123.83	419,239.66	12,250,403.90
Electric Intangible Plant	26,829,943.42	38,894,593.44	(15,416,522.35)	-	23,478,071.09	50,308,014.51
Electric Other Production	503,050,995.17	9,157,460.81	(3,431,984.68)	12,329,547.37	18,055,023.50	521,106,018.67
Electric Steam Production	1,715,546,561.48	28,572,684.88	(6,787,209.04)	13,895,917.08	35,681,392.92	1,751,227,954.40
Electric Transmission	525,624,959.67	16,477,097.73	(2,987,394.57)	(26,508,548.05)	(13,018,844.89)	512,606,114.78
Total 101 Accounts	3,998,708,617.02	155,218,683.49	(36,659,523.15)	-	118,559,160.34	4,117,267,777.36
105 Plant Held for Future Use						
Electric						
Electric Steam	10,137,561.95	-	-	-	-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	(5,569,485.36)	-	-	(5,569,485.36)	116,329,830.37
Electric General Plant	2,677,508.16	(1,946,141.21)	-	-	(1,946,141.21)	731,366.95
Electric Hydro Production	11,732.37	63,527.63	-	-	63,527.63	75,260.00
Electric Intangible Plant	1,058,583.09	244,608.16	-	-	244,608.16	1,303,191.25
Electric Other Production	210,168.91	1,769,764.79	-	-	1,769,764.79	1,979,933.70
Electric Steam Production	307,830,864.65	180,527,662.95	-	-	180,527,662.95	488,358,527.60
Electric Transmission	3,483,426.89	7,923,894.19	-	-	7,923,894.19	11,407,321.08
Total 106 Accounts	437,171,599.80	183,013,831.15	-	-	183,013,831.15	620,185,430.95
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	(8,291,128.25)	-	-	(8,291,128.25)	1,168,149,043.52
Total 107001	1,176,440,171.77	(8,291,128.25)	-	-	(8,291,128.25)	1,168,149,043.52
Total Plant (Non-CWIP)	4,446,196,899.71	338,232,514.64	(36,659,523.15)	-	301,572,991.49	4,747,769,891.20
Total Plant + CWIP	5,622,637,071.48	329,941,386.39	(36,659,523.15)	-	293,281,863.24	5,915,918,934.72
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	329,941,386.39	(36,659,523.15)	-	293,281,863.24	5,915,739,813.78

September 22, 2009

Kentuck , Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
August 31, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(16,888,515.91)	2,168,664.04	(37.05)	-	-	-	(39,878.99)	(401,844,982.76)
Electric Distribution - ARO	(6,386.40)	(121.76)	-	-	-	-	-	-	(6,508.16)
Electric General Plant	(54,006,194.03)	(3,390,604.60)	5,867,748.47	-	-	-	-	-	(51,529,050.16)
Electric Hydro Production	(7,591,558.65)	(64,610.53)	-	(91,028.80)	-	-	-	-	(7,747,197.98)
Electric Hydro Production - ARO	(1,811.92)	(34.56)	-	-	-	-	-	-	(1,846.48)
Electric Other Production	(130,098,501.03)	(11,014,581.96)	3,431,984.68	(1,887,563.75)	-	-	-	-	(139,568,662.06)
Electric Other Production - ARO	(32,068.56)	(1,628.56)	-	-	-	-	-	-	(33,697.12)
Electric Steam Production	(904,811,374.27)	(35,916,648.15)	6,787,209.04	(5,374,522.03)	-	-	-	(255,166.15)	(939,570,501.56)
Electric Steam Production - ARO	(4,615,135.75)	(196,135.41)	-	(2,024.05)	-	-	-	-	(4,813,295.21)
Electric Transmission	(208,518,367.58)	(5,193,174.82)	2,987,394.57	7,353,151.63	-	-	-	(278,850.59)	(203,649,846.79)
Electric Transmission - ARO	(4,580.08)	(66.85)	-	2,024.05	-	-	-	-	(2,622.88)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(72,666,123.11)	21,243,000.80	(0.00)	-	-	-	(573,895.73)	(1,748,768,211.16)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(5,474,093.67)	-	(44.08)	-	2,909,279.26	-	-	(202,437,173.83)
Electric General Plant	152,325.56	(23,125.90)	-	-	-	59,263.94	-	-	188,463.60
Electric Hydro Production	(669,680.63)	(4,945.21)	-	(16,118.61)	-	-	-	-	(690,744.45)
Electric Other Production	(1,644,839.43)	(515,594.93)	-	(95,060.99)	-	241,383.21	-	-	(2,014,112.14)
Electric Steam Production	(85,505,341.30)	(8,068,701.33)	-	(31,815.78)	-	1,521,723.40	-	-	(92,084,135.01)
Electric Transmission	(140,724,513.55)	(1,923,946.02)	-	143,039.46	-	2,501,294.63	-	-	(140,004,125.48)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(16,010,407.06)	-	(0.00)	-	7,232,944.44	-	-	(437,041,827.31)
Salvage									
Electric Distribution	45,600,359.15	1,277,914.72	-	-	-	-	(20,533.13)	-	46,857,740.74
Electric General Plant	147,868.89	2,148.31	-	-	-	-	(258.63)	-	149,758.57
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	1,890,446.38	-	-	-	-	(20,000.00)	-	16,393,092.80
Electric Transmission	22,387,639.10	406,532.50	-	-	-	-	(400,908.60)	-	22,393,263.00
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	3,577,239.21	-	-	-	-	(441,700.36)	-	86,459,265.41
Total Reserves									
Electric Distribution	(541,357,171.04)	(21,084,694.86)	2,168,664.04	(81.13)	-	2,909,279.26	(20,533.13)	(39,878.99)	(557,424,415.85)
Electric Distribution - ARO	(6,386.40)	(121.76)	-	-	-	-	-	-	(6,508.16)
Electric General Plant	(53,705,999.58)	(3,411,582.19)	5,867,748.47	-	-	59,263.94	(258.63)	-	(51,190,827.99)
Electric Hydro Production	(8,214,917.89)	(69,358.44)	-	(107,147.41)	-	-	-	-	(8,391,423.74)
Electric Hydro Production - ARO	(1,811.92)	(34.56)	-	-	-	-	-	-	(1,846.48)
Electric Other Production	(131,124,448.85)	(11,530,176.89)	3,431,984.68	(1,982,624.74)	-	241,383.21	-	-	(140,963,882.59)
Electric Other Production - ARO	(32,068.56)	(1,628.56)	-	-	-	-	-	-	(33,697.12)
Electric Steam Production	(975,794,069.15)	(42,094,903.10)	6,787,209.04	(5,406,337.81)	-	1,521,723.40	(20,000.00)	(255,166.15)	(1,015,261,543.77)
Electric Steam Production - ARO	(4,615,135.75)	(196,135.41)	-	(2,024.05)	-	-	-	-	(4,813,295.21)
Electric Transmission	(326,855,242.03)	(6,710,588.34)	2,987,394.57	7,496,191.09	-	2,501,294.63	(400,908.60)	(278,850.59)	(321,260,709.27)
Electric Transmission - ARO	(4,580.08)	(66.85)	-	2,024.05	-	-	-	-	(2,622.88)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(85,099,290.96)	21,243,000.80	(0.00)	-	7,232,944.44	(441,700.36)	(573,895.73)	(2,099,350,773.06)
Retirement Work In Process									
Electric	11,271,917.81	-	-	47,361.17	(6,217,348.35)	14,016,471.82	(439,460.76)	(64,824.48)	18,614,117.21
	11,271,917.81	-	-	47,361.17	(6,217,348.35)	14,016,471.82	(439,460.76)	(64,824.48)	18,614,117.21
YTD Activity	(2,030,439,913.44)	(85,099,290.96)	21,243,000.80	47,361.17	(6,217,348.35)	21,249,416.26	(881,161.12)	(638,720.21)	(2,080,736,655.85)
Amortization									
Electric	(22,052,247.99)	(3,850,611.58)	15,416,522.35	-	-	-	-	-	(10,486,337.22)
	(22,052,247.99)	(3,850,611.58)	15,416,522.35	-	-	-	-	-	(10,486,337.22)
Depreciation & Amortization Total	(2,052,492,161.43)	(88,949,902.54)	36,659,523.15	47,361.17	(6,217,348.35)	21,249,416.26	(881,161.12)	(638,720.21)	(2,091,222,993.07)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,824,516,820.71

September 22, 2009

KU Monthly Report to KPSC – July 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

July 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
July 31, 2009

Kentucky ‹ ‹s Company
Comparative Statement of Income
July 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	121,406,797.45	127,619,830.80	(6,213,033.35)	(4.87)
Total Operating Revenues	121,406,797.45	127,619,830.80	(6,213,033.35)	(4.87)
Fuel for Electric Generation	37,744,724.62	50,554,216.04	(12,809,491.42)	(25.34)
Power Purchased	15,451,492.29	18,231,684.06	(2,780,191.77)	(15.25)
Other Operation Expenses	16,581,489.02	15,150,039.32	1,431,449.70	9.45
Maintenance	7,428,442.91	6,165,501.63	1,262,941.28	20.48
Depreciation	10,636,836.83	11,249,730.35	(612,893.52)	(5.45)
Amortization Expense	549,651.19	446,262.26	103,388.93	23.17
Regulatory Credits	(201,063.30)	(190,313.18)	(10,750.12)	(5.65)
Taxes				
Federal Income	8,143,446.90	5,920,581.93	2,222,864.97	37.54
State Income	1,485,127.09	1,138,573.45	346,553.64	30.44
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	2,045,797.61	1,829,366.80	216,430.81	11.83
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	176,314.35	165,564.25	10,750.10	6.49
Total Operating Expenses	100,042,259.51	110,661,206.91	(10,618,947.40)	(9.60)
Net Operating Income	21,364,537.94	16,958,623.89	4,405,914.05	25.98
Other Income Less Deductions				
Other Income Less Deductions	444,474.88	3,641,885.15	(3,197,410.27)	(87.80)
AFUDC - Equity	204,369.19	459,097.99	(254,728.80)	(55.48)
Total Other Income Less Deductions	648,844.07	4,100,983.14	(3,452,139.07)	(84.18)
Income Before Interest Charges	22,013,382.01	21,059,607.03	953,774.98	4.53
Interest on Long-term Debt	5,988,157.47	5,663,374.56	324,782.91	5.73
Amortization of Debt Expense - Net	68,333.82	61,577.08	6,756.74	10.97
Other Interest Expenses	271,391.64	311,012.81	(39,621.17)	(12.74)
AFUDC - Borrowed Funds	(87,056.23)	(155,072.46)	68,016.23	43.86
Total Interest Charges	6,240,826.70	5,880,891.99	359,934.71	6.12
Net Income	15,772,555.31	15,178,715.04	593,840.27	3.91

August 21, 2009

Kentucky · ɛs Company
Comparative Statement of Income
July 31, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	787,702,049.61	796,116,049.17	(8,413,999.56)	(1.06)
Total Operating Revenues	787,702,049.61	796,116,049.17	(8,413,999.56)	(1.06)
Fuel for Electric Generation	252,505,234.12	283,500,398.09	(30,995,163.97)	(10.93)
Power Purchased	122,784,762.23	128,452,572.97	(5,667,810.74)	(4.41)
Other Operation Expenses	109,950,025.23	99,807,929.27	10,142,095.96	10.16
Maintenance	110,237,407.36	53,104,938.33	57,132,469.03	107.58
Depreciation	73,975,965.36	71,612,267.90	2,363,697.46	3.30
Amortization Expense	3,298,343.85	2,927,319.54	371,024.31	12.67
Regulatory Credits	(1,388,246.03)	(1,311,837.91)	(76,408.12)	(5.82)
Taxes				
Federal Income	(540,938.58)	27,099,969.87	(27,640,908.45)	(102.00)
State Income	2,261,090.45	6,742,936.13	(4,481,845.68)	(66.47)
Deferred Federal Income - Net	8,912,200.80	(6,622,475.69)	15,534,676.49	234.58
Deferred State Income - Net	315,829.70	(1,773,804.06)	2,089,633.76	117.81
Property and Other	13,819,636.76	12,004,578.37	1,815,058.39	15.12
Investment Tax Credit	10,708,227.49	12,924,999.97	(2,216,772.48)	(17.15)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	1,215,007.87	1,140,609.22	74,398.65	6.52
Total Operating Expenses	707,969,838.85	689,027,295.45	18,942,543.40	2.75
Net Operating Income	79,732,210.76	107,088,753.72	(27,356,542.96)	(25.55)
Other Income Less Deductions				
Other Income Less Deductions	8,587,976.99	17,976,943.82	(9,388,966.83)	(52.23)
AFUDC - Equity	2,831,881.32	3,454,966.66	(623,085.34)	(18.03)
Total Other Income Less Deductions	11,419,858.31	21,431,910.48	(10,012,052.17)	(46.72)
Income Before Interest Charges	91,152,069.07	128,520,664.20	(37,368,595.13)	(29.08)
Interest on Long-term Debt	41,295,679.55	38,472,292.04	2,823,387.51	7.34
Amortization of Debt Expense - Net	473,287.07	427,107.57	46,179.50	10.81
Other Interest Expenses	1,958,983.13	1,689,262.29	269,720.84	15.97
AFUDC - Borrowed Funds	(920,022.70)	(1,174,977.90)	254,955.20	21.70
Total Interest Charges	42,807,927.05	39,413,684.00	3,394,243.05	8.61
Net Income	48,344,142.02	89,106,980.20	(40,762,838.18)	(45.75)

August 21, 2009

Kentucky ... es Company
Comparative Statement of Income
July 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,395,628,053.69	1,342,706,129.83	52,921,923.86	3.94
Total Operating Revenues	1,395,628,053.69	1,342,706,129.83	52,921,923.86	3.94
Fuel for Electric Generation	481,404,306.77	485,748,892.53	(4,344,585.76)	(0.89)
Power Purchased	215,508,957.56	195,737,106.51	19,771,851.05	10.10
Other Operation Expenses	177,054,323.60	165,801,143.61	11,253,179.99	6.79
Maintenance	145,911,261.51	93,933,503.23	51,977,758.28	55.33
Depreciation	133,478,706.55	121,821,740.92	11,656,965.63	9.57
Amortization Expense	5,600,680.16	5,059,834.45	540,845.71	10.69
Regulatory Credits	(2,352,956.83)	(2,210,418.95)	(142,537.88)	(6.45)
Taxes				
Federal Income	15,543,720.36	27,176,017.71	(11,632,297.35)	(42.80)
State Income	5,571,888.25	11,414,993.29	(5,843,105.04)	(51.19)
Deferred Federal Income - Net	5,341,168.47	(6,374,402.79)	11,715,571.26	183.79
Deferred State Income - Net	(1,069,235.10)	(1,438,319.66)	369,084.56	25.66
Property and Other	22,476,152.71	19,361,467.27	3,114,685.44	16.09
Investment Tax Credit	23,050,125.49	35,741,646.97	(12,691,521.48)	(35.51)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,055,974.01	1,916,054.52	139,919.49	7.30
Total Operating Expenses	1,229,490,365.75	1,153,106,153.06	76,384,212.69	6.62
Net Operating Income	166,137,687.94	189,599,976.77	(23,462,288.83)	(12.37)
Other Income Less Deductions				
Other Income Less Deductions	19,992,223.14	30,808,674.73	(10,816,451.59)	(35.11)
AFUDC - Equity	5,417,883.22	5,271,916.05	145,967.17	2.77
Total Other Income Less Deductions	25,410,106.36	36,080,590.78	(10,670,484.42)	(29.57)
Income Before Interest Charges	191,547,794.30	225,680,567.55	(34,132,773.25)	(15.12)
Interest on Long-term Debt	71,153,942.73	61,461,393.60	9,692,549.13	15.77
Amortization of Debt Expense - Net	789,750.02	733,152.59	56,597.43	7.72
Other Interest Expenses	4,894,886.18	4,782,018.20	112,867.98	2.36
AFUDC - Borrowed Funds	(1,793,513.21)	(1,697,741.26)	(95,771.95)	(5.64)
Total Interest Charges	75,045,065.72	65,278,823.13	9,766,242.59	14.96
Net Income	116,502,728.58	160,401,744.42	(43,899,015.84)	(27.37)

August 21, 2009

Kentucky U. ‹es Company
Analysis of Retained Earnings
July 31, 2009

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance at Beginning of Period	1,216,199,359.13	11,334,844.35	1,174,207,029.97	20,755,586.80	1,099,275,935.41	27,528,094.80
Add:						
Net Income for Period	15,772,555.31	-	48,344,142.02	-	116,502,728.58	-
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc	(226,857.00)	226,857.00	(1,656,114.55)	1,656,114.55	(9,883,606.55)	9,883,606.55
Dividends Received Current Year -EE Inc	-	-	10,850,000.00	(10,850,000.00)	25,850,000.00	(25,850,000.00)
Balance at End of Period	1,231,745,057.44	11,561,701.35	1,231,745,057.44	11,561,701.35	1,231,745,057.44	11,561,701.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings	11,561,701.35	11,561,701.35	11,561,701.35
Statutory Tax Rate	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary	4,497,501.83	4,497,501.83	4,497,501.83

Combined Balance of Retained Earnings	12 MONTHS 7/31/2009	12 MONTHS 7/31/2008
Retained Earnings at Beginning of Period	1,126,804,030.21	966,394,597.79
Net Income	116,502,728.58	160,401,774.42
FIN 48 Adjustment	-	7,688.00
Retained Earnings at End of Period	1,243,306,758.79	1,126,804,060.21

August 21, 2009

Kentucky [illegible]s Company
Comparative Balance Sheets as of July 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,882,337,366.60	5,357,770,196.89
Less Reserves for Depreciation and Amortization	2,081,473,806.08	2,003,448,189.13
Total	3,800,863,560.52	3,354,322,007.76
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	12,857,501.35	28,823,894.80
Special Funds	-	6,146,891.95
Other	411,140.00	411,140.00
Total	13,697,762.29	35,811,047.69
Current and Accrued Assets		
Cash	3,530,087.93	1,860,547.82
Special Deposits	-	557,352.99
Temporary Cash Investments	269.25	17,780.76
Accounts Receivable-Less Reserve	173,107,144.30	174,355,416.21
Accounts Receivable from Associated Companies	4,149.00	71,204.54
Materials and Supplies-At Average Cost		
Fuel	86,557,297.67	46,798,590.89
Plant Materials and Operating Supplies	30,398,928.85	28,921,508.43
Stores Expense	6,679,086.77	6,422,212.96
Allowance Inventory	1,658,746.36	118,231.43
Prepayments	3,440,173.41	3,082,011.85
Miscellaneous Current and Accrued Assets	3,845,529.74	13,072.08
Total	309,221,413.28	262,217,929.96
Deferred Debits and Other		
Unamortized Debt Expense	4,922,670.87	6,556,602.21
Unamortized Loss on Bonds	13,231,202.21	10,760,489.48
Accumulated Deferred Income Taxes	50,525,590.17	49,891,465.49
Deferred Regulatory Assets	223,605,356.41	84,016,828.50
Other Deferred Debits	42,770,991.74	72,391,113.33
Total	335,055,811.40	223,616,499.01
Total Assets and Other Debits	4,458,838,547.49	3,875,967,484.42

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	315,711,597.00	165,000,000.00
Retained Earnings	1,231,745,057.44	1,099,275,935.41
Unappropriated Undistributed Subsidiary Earnings	11,561,701.35	27,528,094.80
Total Common Equity	1,866,837,044.48	1,599,622,718.90
Pollution Control Bonds	350,779,405.00	253,159,520.00
LT Notes Payable to Associated Companies	1,281,000,000.00	1,056,000,000.00
Total Long-term Debt	1,631,779,405.00	1,309,159,520.00
Total Capitalization	3,498,616,449.48	2,908,782,238.90
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	9,457,954.00	144,957,454.00
Accounts Payable	137,196,039.35	156,606,606.44
Accounts Payable to Associated Companies	17,322,084.73	18,172,813.24
Customer Deposits	21,705,548.63	20,151,092.83
Taxes Accrued	20,627,713.52	12,649,986.16
Interest Accrued	16,946,835.69	14,383,033.64
Miscellaneous Current and Accrued Liabilities	20,192,602.85	16,573,755.68
Total	243,448,778.77	383,494,741.99
Deferred Credits and Other		
Accumulated Deferred Income Taxes	336,071,159.62	328,624,919.89
Investment Tax Credit	90,591,005.28	67,740,765.27
Regulatory Liabilities	43,938,381.42	38,486,090.55
Customer Advances for Construction	2,404,360.43	2,366,324.35
Asset Retirement Obligations	33,781,118.01	31,365,724.67
Other Deferred Credits	31,779,376.31	26,214,824.25
Miscellaneous Long-term Liabilities	2,962,774.80	3,293,484.89
Accum Provision for Postretirement Benefits	175,245,143.37	85,598,369.66
Total	716,773,319.24	583,690,503.53
Total Liabilities and Other Credits	4,458,838,547.49	3,875,967,484.42

August 21, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
July 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			315,711,597.00		
Retained Earnings			1,231,745,057.44		
Unappropriated Undistributed Subsidiary Earnings			11,561,701.35		
Total Common Equity			1,866,837,044.48	53.21	53.36
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	9.99	10.03
Long-term Notes Payable to Associated Companies			1,281,000,000.00	36.53	36.61
Total Capitalization			3,498,616,449.48	99.73	100.00
Short-term Notes Payable to Associated Companies			9,457,954.00	0.27	
Total Capitalization and Short-term Debt			3,508,074,403.48	100.00	

August 21, 2009

Kentucky Utilities Company
Summary Trial Balance
July 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,882,337,366.60	5,882,337,366.60
Reserves for Depreciation and Amortization		(2,081,473,806.08)
Depreciation of Plant	(2,071,453,185.97)	
Amortization of Plant	(10,020,620.11)	
Investments		13,697,762.29
Investments in Subsidiary Companies	12,857,501.35	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	3,530,087.93	3,530,087.93
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		173,107,144.30
Customers - Active	80,331,785.82	
Unbilled Revenues	68,274,888.43	
Income Tax Receivable - Federal	8,874,374.27	
OMU Reserve Funds	6,431,075.73	
IMPA	1,828,416.75	
IMEA	1,720,528.79	
Transmission Sales	599,702.70	
Damage Claims	202,548.52	
Wholesale Sales	112,774.83	
Employee Computer Loans	53,639.96	
Working Funds	39,367.13	
Interest and Dividends Receivable	4,573.05	
Other	5,654,433.13	
Utility Customers		
Charged Off	2,820,070.31	
Accrual	(2,149,794.83)	
Reserve	(989,746.00)	
Recoveries	(670,172.29)	
A/R Miscellaneous	(31,322.00)	
Accounts Receivable from Associated Companies		4,149.00
E.ON US Services/Louisville Gas and Electric Company	4,149.00	

Kentucky Utilities Company
Summary Trial Balance
July 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		86,557,297.67
Coal 1,470,102.19 Tons @ $62.65 MMBtu 34,377,935.50 @ 267.92¢	80,658,938.20	
Fuel Oil 3,003,058.00 Gallons @ 198.17¢	5,858,273.09	
Gas Pipeline 12,223.30 Mcf @ $4.92	40,086.38	
Plant Materials and Operating Supplies		30,398,928.85
Regular Materials and Supplies	29,647,836.92	
Limestone 91,481.36 Tons @ $8.02	751,091.93	
Stores Expense Undistributed	6,679,086.77	6,679,086.77
Allowance Inventory	1,658,746.36	1,658,746.36
Prepayments		3,440,173.41
Taxes	1,719,200.63	
Insurance	1,257,871.68	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	72,120.93	
Other	315,980.17	
Miscellaneous Current Assets		3,845,529.74
Derivative Asset - Non-Hedging	3,845,529.74	
Unamortized Debt Expense		4,922,670.87
Carroll County 2002 Series A due 02/01/32 Var%	92,262.34	
Carroll County 2002 Series B due 02/01/32 Var%	64,131.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	71,392.11	
Mercer County 2002 Series A due 02/01/32 Var%	25,743.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,700,191.58	
Carroll County 2006 Series B due 10/01/34 Var%	1,205,851.30	
Carroll County 2007 Series A due 02/01/26 5.75%	549,998.04	
Trimble County 2007 Series A due 03/01/37 6.00%	443,268.93	
Carroll County 2008 Series A due 02/01/32 Var%	769,831.55	
Unamortized Loss on Bonds	13,231,202.21	13,231,202.21
Accumulated Deferred Income Taxes		50,525,590.17
Federal	42,629,659.24	
State	7,895,930.93	
Regulatory Assets		223,605,356.41
Pension and Postretirement Benefits	126,832,090.11	
Environmental Cost Recovery	30,118,846.00	
Asset Retirement Obligations	29,259,562.69	
SFAS 109 - Deferred Taxes	11,545,602.20	
MISO Exit Fee	11,537,898.99	
FERC Jurisdictional Pension Expense	3,408,080.81	
Fuel Adjustment Clause	3,280,000.00	
2008 Wind Storm	2,195,516.35	
VA Fuel Component	1,896,257.00	
EKPC FERC Transmission Cost	1,534,028.16	
Rate Case Expenses	1,189,776.71	
KCCS Funding	807,697.39	
Other Deferred Debits	42,770,991.74	42,770,991.74
Total Assets and Other Debits	4,458,838,547.49	4,458,838,547.49

August 21, 2009

Kentucky Utilities Company
Summary Trial Balance
July 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,866,837,044.48
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	315,711,597.00	
Retained Earnings	1,231,745,057.44	
Unappropriated Undistributed Subsidiary Earnings	11,561,701.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,281,000,000.00	1,281,000,000.00
Short-term Notes Payable to Associated Companies	9,457,954.00	9,457,954.00
Accounts Payable		137,196,039.35
Regular	134,549,205.32	
Salaries and Wages Accrued	2,688,116.74	
Employee Withholdings Payable	(41,282.71)	
Accounts Payable to Associated Companies		17,322,084.73
E.ON US Services/Louisville Gas and Electric Company	17,322,084.73	
Customers' Deposits	21,705,548.63	21,705,548.63
Taxes Accrued	20,627,713.52	20,627,713.52
Interest Accrued		16,946,835.69
Mercer County 2000 Series A due 05/01/23 Var%	4,216.85	
Carroll County 2002 Series A due 02/01/32 Var%	15,826.52	
Carroll County 2002 Series B due 02/01/32 Var%	1,814.77	
Muhlenburg County 2002 Series A due 02/01/32 Var%	1,814.77	
Mercer County 2002 Series A due 02/01/32 Var%	5,595.60	
Carroll County 2002 Series C due 10/01/32 Var%	9,253.28	
Carroll County 2004 Series A due 10/01/34 Var%	12,835.65	
Carroll County 2007 Series A due 02/01/26 5.75%	17,531.52	
Trimble County 2007 Series A due 03/01/37 6.00%	89,270.00	
Carroll County 2008 Series A due 02/01/32 Var%	171,302.08	
Interest Rate Swaps	24,793.70	
Fidelia	15,833,863.74	
Customers' Deposits	630,696.08	
Other	128,021.13	

August 21, 2009

Kentucky Utilities Company
Summary Trial Balance
July 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		20,192,602.85
Vacation Pay Accrued	5,780,053.25	
Franchise Fee Payable	5,758,041.22	
Tax Collections Payable	3,518,028.02	
Customer Overpayments	3,033,838.02	
OMU Excess	1,350,610.72	
Derivative Liabilities - Non-Hedging	112,923.24	
Other	639,108.38	
Accumulated Deferred Income Taxes		336,071,159.62
Federal	291,495,512.02	
State	44,575,647.60	
Investment Tax Credit		90,591,005.28
Advance Coal Credit	90,541,772.46	
Job Development Credit	49,232.82	
Regulatory Liabilities		43,938,381.42
Deferred Taxes	24,299,164.63	
DSM Cost Recovery	10,339,742.97	
Asset Retirement Obligations	4,042,579.11	
MISO Schedule 10 Charges	3,679,956.11	
Spare Parts	1,576,938.60	
Customers' Advances for Construction		2,404,360.43
Line Extensions	1,535,925.35	
Customer Advances	175,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	688,839.18	
Asset Retirement Obligations	33,781,118.01	33,781,118.01
Other Deferred Credits	31,779,376.31	31,779,376.31
Miscellaneous Long-term Liabilities		2,962,774.80
Workers' Compensation	2,772,932.78	
Long-Term Derivative Liabilities-SFAS 133	189,842.02	
Accumulated Provision for Benefits		175,245,143.37
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	64,579,346.51	
Post Employment Benefits Payable	5,743,518.00	
Medicare Subsidy - SFAS 106	(5,093,742.14)	
Post Employment Medicare Subsidy	(233,923.00)	
Total Liabilities and Other Credits	4,458,838,547.49	4,458,838,547.49

August 21, 2009

Kentucky Utilities Company
Statement of Cash Flows
June 30, 2009

	Year to Date	
	2009	2008
Cash Flows from Operating Activities		
Net income	32,571,586.71	73,928,265.16
Items not requiring (providing) cash currently:		
Depreciation	63,339,128.53	60,362,537.55
Amortization	2,748,692.66	2,481,057.28
Deferred income taxes - net	9,228,030.50	(3,809,810.76)
Investment tax credit - net	10,708,227.49	12,767,845.95
Other	13,212,544.38	3,842,062.74
Change in receivables	18,012,230.79	26,945,545.45
Change in inventory	(26,397,271.97)	(14,858,980.67)
Change in allowance inventory	(1,745,192.16)	229,135.72
Change in payables and accrued expenses	(5,279,580.11)	16,753,618.26
Change in regulatory assets	(36,109,828.59)	(1,784,861.19)
Change in regulatory liabilities	3,094,789.85	416,440.45
Change in other deferred debits	34,441,409.15	(2,305,590.76)
Change in other deferred credits	8,217,596.04	11,923,465.69
Other	(39,318,999.59)	(6,871,917.27)
Gain on disposal of assets	(49,551.71)	-
Less: Allowance for other funds used during construction	(3,460,478.60)	(4,015,774.11)
Less: Undistributed earnings of subsidiary company	9,420,742.45	(626,490.00)
Net cash provided (used) by operating activities	92,634,075.82	175,376,549.49
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(271,076,681.26)	(363,184,720.89)
Less: Allowance for other funds used during construction	3,460,478.60	4,015,774.11
Proceeds received from sales of property	49,551.71	1,175.00
Change in non-hedging derivatives	(1,715,351.03)	385,022.61
Change in other special funds	(307,816.40)	(197,332.69)
Change in restricted cash	9,041,466.83	10,939,481.20
Net cash provided (used) by investing activities	(260,548,351.55)	(348,040,600.66)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	49,409,326.66	74,712,907.95
Net change in short-term debt	44,308,500.00	52,224,000.00
Payments for reacquisition of long-term debt	-	(29,593,620.00)
Contributed capital	75,000,000.00	75,000,000.00
Net cash provided (used) by financing activities	168,717,826.66	172,343,287.95
Net Increase (Decrease) in Cash and Cash Equivalents	803,550.93	(320,763.22)
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,216,909.59	17,747.48

August 21, 2009

Kentucky [illegible]es Company
Analysis of Interest Charges
July 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%............	4,216.36	-	40,926.57	289,040.62	47,024.03	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%............	20,872.65	31,023.29	138,619.13	236,114.89	286,656.60	558,333.55
Carroll County 2002 Series B due 02/01/32 Var%............	2,393.42	3,557.38	15,895.16	27,074.81	32,870.32	64,022.95
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,393.42	3,557.38	15,895.16	27,074.81	32,870.32	64,022.95
Mercer County 2002 Series A due 02/01/32 Var%............	7,379.72	10,968.58	49,010.11	83,480.67	101,350.17	197,404.12
Carroll County 2002 Series C due 10/01/32 Var%............	27,845.33	293,901.33	309,810.65	2,251,773.32	1,620,373.32	3,995,767.99
Carroll County 2004 Series A due 10/01/34 Var%............	12,835.62	119,791.69	150,095.89	1,524,201.41	176,257.08	2,382,187.52
Carroll County 2005 Series A due 06/01/35 Var%............	-	39,785.37	-	302,078.50	141,775.15	525,412.86
Carroll County 2005 Series B due 06/01/35 Var%............	-	40,133.63	-	301,121.44	141,775.15	515,587.20
Carroll County 2006 Series A due 06/01/36 Var%............	-	89,153.67	-	468,880.20	363,081.14	758,421.77
Carroll County 2006 Series C due 06/01/36 Var%............	-	-	-	338,393.58	(53.57)	627,604.06
Carroll County 2006 Series B due 10/01/34 Var%............	17,531.51	286,215.00	204,859.73	1,502,971.50	1,587,051.92	2,419,141.50
Carroll County 2007 Series A due 02/01/26 5.75%...........	85,651.04	88,506.08	599,557.29	560,286.90	1,024,957.48	876,887.91
Trimble County 2007 Series A due 03/01/37 6.00%...........	44,635.00	46,122.83	312,445.00	287,253.50	534,132.20	445,516.81
Carroll County 2008 Series A due 02/01/32 Var%............	24,793.68	-	291,630.08	-	617,049.83	-
Fidelia..	5,737,609.72	4,610,658.33	39,166,934.78	30,272,545.89	64,446,771.59	47,518,459.71
Hardin Promissory Note..	-	-	-	-	-	223,582.08
Total..	5,988,157.47	5,663,374.56	41,295,679.55	38,472,292.04	71,153,942.73	61,461,393.60
Amortization of Debt Expense - Net						
Amortization of Debt Expense......................................	17,975.18	21,983.46	122,802.26	161,128.23	211,985.31	285,283.25
Amortization of Loss on Reacquired Debt.........................	50,358.64	39,593.62	350,484.81	265,979.34	577,764.71	447,869.34
Total..	68,333.82	61,577.08	473,287.07	427,107.57	789,750.02	733,152.59
Other Interest Charges						
Customers' Deposits...	114,773.00	93,385.65	722,343.23	673,889.69	1,200,659.00	1,122,277.45
Other Tax Deficiencies..	-	-	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery.....................................	3,001.05	-	29,970.80	-	65,256.67	-
Interest on Debt to Associated Companies..........................	11,649.90	217,627.16	104,549.02	991,308.66	1,420,496.92	3,639,100.81
AFUDC Borrowed Funds..	(87,056.23)	(155,072.46)	(920,022.70)	(1,174,977.90)	(1,793,513.21)	(1,697,741.26)
Other Interest Expense..	141,967.69	-	1,102,120.08	7,526.24	2,205,593.59	7,526.24
Total..	184,335.41	155,940.35	1,038,960.43	514,284.39	3,101,372.97	3,084,276.94
Total Interest..	6,240,826.70	5,880,891.99	42,807,927.05	39,413,684.00	75,045,065.72	65,278,823.13

August 21, 2009

Kentucky U .ties Company
Analysis of Taxes Charged and Accrued
July 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,160,101.01	8,519,793.12	7,310,707.07
Unemployment	6,197.02	9,075.97	131,967.32	577,971.45
FICA	569,925.28	488,116.80	4,066,826.22	3,016,355.21
Public Service Commission Fee	156,290.97	149,395.89	1,052,666.36	1,044,654.22
Federal Income	8,143,446.90	5,920,581.93	(540,938.58)	27,099,969.87
State Income	1,485,127.09	1,138,573.45	2,261,090.45	6,742,936.13
Miscellaneous	9,094.18	22,677.13	48,383.74	54,890.42
Total Charged to Operating Expense	11,674,371.60	8,888,522.18	15,539,788.63	45,847,484.37
Taxes Charged to Other Accounts	760,144.16	2,477,486.28	13,012,651.47	8,378,464.47
Taxes Accrued on Intercompany Accounts	(221,869.68)	(182,986.19)	(1,561,687.16)	(1,275,952.93)
Total Taxes Charged	12,212,646.08	11,183,022.27	26,990,752.94	52,949,995.91

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	8,867,849.64	6,792,176.11	8,867,688.77
Unemployment	48,319.14	84,748.09	132,861.11	206.12
FICA	553,448.29	3,544,067.93	3,679,610.58	417,905.64
Federal Income	546,249.77	9,785,614.72	1,851,663.85	8,480,200.64
State Income	10,477.99	2,456,670.23	158,241.00	2,308,907.22
Kentucky Sales and Use Tax	577,873.18	2,137,221.05	2,187,784.40	527,309.83
Miscellaneous	30,176.34	114,581.28	119,262.32	25,495.30
Totals	8,558,559.95	26,990,752.94	14,921,599.37	20,627,713.52

August 21, 2009

Kentuck, Company
Summary of Utility Plant
July 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	19,845,463.95	(1,641,612.57)	4,959.77	18,208,811.15	1,127,651,056.06
Electric General Plant	106,382,748.13	8,766,337.55	(5,844,085.71)	-	2,922,251.84	109,304,999.97
Electric Hydro Production	11,831,164.24	141,115.83	-	278,123.83	419,239.66	12,250,403.90
Electric Intangible Plant	26,829,943.42	38,614,925.56	(15,329,971.73)	-	23,284,953.83	50,114,897.25
Electric Other Production	503,050,995.17	9,157,460.81	(3,431,984.68)	12,329,547.37	18,055,023.50	521,106,018.67
Electric Steam Production	1,715,546,561.48	28,433,883.20	(6,787,209.04)	13,895,917.08	35,542,591.24	1,751,089,152.72
Electric Transmission	525,624,959.67	16,190,806.55	(2,867,664.88)	(26,508,548.05)	(13,185,406.38)	512,439,553.29
Total 101 Accounts	3,998,708,617.02	121,149,993.45	(35,902,528.61)	-	85,247,464.84	4,083,956,081.86
105 Plant Held for Future Use						
Electric						
Electric Steam	10,137,561.95	-	-	-	-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	22,707,768.95	-	-	22,707,768.95	144,607,084.68
Electric General Plant	2,677,508.16	(1,768,230.73)	-	-	(1,768,230.73)	909,277.43
Electric Hydro Production	11,732.37	63,527.63	-	-	63,527.63	75,260.00
Electric Intangible Plant	1,058,583.09	148,344.65	-	-	148,344.65	1,206,927.74
Electric Other Production	210,168.91	1,702,903.86	-	-	1,702,903.86	1,913,072.77
Electric Steam Production	307,830,864.65	177,612,679.03	-	-	177,612,679.03	485,443,543.68
Electric Transmission	3,483,426.89	8,000,367.70	-	-	8,000,367.70	11,483,794.59
Total 106 Accounts	437,171,599.80	208,467,361.09	-	-	208,467,361.09	645,638,960.89
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	(33,835,409.87)	-	-	(33,835,409.87)	1,142,604,761.90
Total 107001	1,176,440,171.77	(33,835,409.87)	-	-	(33,835,409.87)	1,142,604,761.90
Total Plant (Non-CWIP)	4,446,196,899.71	329,617,354.54	(35,902,528.61)	-	293,714,825.93	4,739,911,725.64
Total Plant + CWIP	5,622,637,071.48	295,781,944.67	(35,902,528.61)	-	259,879,416.06	5,882,516,487.54
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	295,781,944.67	(35,902,528.61)	-	259,879,416.06	5,882,337,366.60

August 21, 2009

Kentuck Company
Summary of Utility Plant - Rt. ıor Depreciation of Utility Plant
July 31, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(14,754,763.04)	1,641,612.57	(37.05)	-	-	-	(14,840.51)	(400,213,242.88)
Electric Distribution - ARO	(6,386.40)	(106.54)	-	-	-	-	-	-	(6,492.94)
Electric General Plant	(54,006,194.03)	(2,944,562.41)	5,844,085.71	-	-	-	-	-	(51,106,670.73)
Electric Hydro Production	(7,591,558.65)	(56,836.40)	-	(91,028.80)	-	-	-	-	(7,739,423.85)
Electric Hydro Production - ARO	(1,811.92)	(30.24)	-	-	-	-	-	-	(1,842.16)
Electric Other Production	(130,098,501.03)	(9,625,211.77)	3,431,984.68	(1,887,563.75)	-	-	-	-	(138,179,291.87)
Electric Other Production - ARO	(32,068.56)	(1,424.99)	-	-	-	-	-	-	(33,493.55)
Electric Steam Production	(904,811,374.27)	(31,351,254.20)	6,787,209.04	(5,374,522.03)	-	-	-	(255,166.15)	(935,005,107.61)
Electric Steam Production - ARO	(4,615,135.75)	(171,615.68)	-	(2,024.05)	-	-	-	-	(4,788,775.48)
Electric Transmission	(208,518,367.58)	(4,555,231.84)	2,867,664.88	7,353,151.63	-	-	-	(267,205.90)	(203,119,988.81)
Electric Transmission - ARO	(4,580.08)	(60.71)	-	2,024.05	-	-	-	-	(2,616.74)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(63,461,097.82)	20,572,556.88	-	-	-	-	(537,212.56)	(1,740,196,946.62)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(4,850,803.41)	-	(44.08)	-	1,276,899.63	-	-	(203,446,263.20)
Electric General Plant	152,325.56	(19,735.81)	-	-	-	55,532.04	-	-	188,121.79
Electric Hydro Production	(669,680.63)	(4,822.43)	-	(16,118.61)	-	-	-	-	(690,621.67)
Electric Other Production	(1,644,839.43)	(441,133.09)	-	(95,060.99)	-	241,383.21	-	-	(1,939,650.30)
Electric Steam Production	(85,505,341.30)	(6,997,129.54)	-	(31,815.78)	-	1,521,723.40	-	-	(91,012,563.22)
Electric Transmission	(140,724,513.55)	(1,734,801.21)	-	143,039.46	-	2,458,403.22	-	-	(139,857,872.08)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(14,048,425.49)	-	-	-	5,553,941.50	-	-	(436,758,848.68)
Salvage									
Electric Distribution	45,600,359.15	1,129,339.70	-	-	-	-	(9,710.57)	-	46,719,988.28
Electric General Plant	147,868.89	2,148.31	-	-	-	-	(258.63)	-	149,758.57
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	1,632,147.73	-	-	-	-	(20,000.00)	-	16,134,794.15
Electric Transmission	22,387,639.10	361,674.57	-	-	-	-	(400,908.60)	-	22,348,405.07
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	3,125,507.61	-	-	-	-	(430,877.80)	-	86,018,356.37
Total Reserves									
Electric Distribution	(541,357,171.04)	(18,476,226.75)	1,641,612.57	(81.13)	-	1,276,899.63	(9,710.57)	(14,840.51)	(556,939,517.80)
Electric Distribution - ARO	(6,386.40)	(106.54)	-	-	-	-	-	-	(6,492.94)
Electric General Plant	(53,705,999.58)	(2,962,149.91)	5,844,085.71	-	-	55,532.04	(258.63)	-	(50,768,790.37)
Electric Hydro Production	(8,214,917.89)	(61,461.53)	-	(107,147.41)	-	-	-	-	(8,383,526.83)
Electric Hydro Production - ARO	(1,811.92)	(30.24)	-	-	-	-	-	-	(1,842.16)
Electric Other Production	(131,124,448.85)	(10,066,344.86)	3,431,984.68	(1,982,624.74)	-	241,383.21	-	-	(139,500,050.56)
Electric Other Production - ARO	(32,068.56)	(1,424.99)	-	-	-	-	-	-	(33,493.55)
Electric Steam Production	(975,794,069.15)	(36,716,236.01)	6,787,209.04	(5,406,337.81)	-	1,521,723.40	(20,000.00)	(255,166.15)	(1,009,882,876.68)
Electric Steam Production - ARO	(4,615,135.75)	(171,615.68)	-	(2,024.05)	-	-	-	-	(4,788,775.48)
Electric Transmission	(326,855,242.03)	(5,928,358.48)	2,867,664.88	7,496,191.09	-	2,458,403.22	(400,908.60)	(267,205.90)	(320,629,455.82)
Electric Transmission - ARO	(4,580.08)	(60.71)	-	2,024.05	-	-	-	-	(2,616.74)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(74,384,015.70)	20,572,556.88	-	-	5,553,941.50	(430,877.80)	(537,212.56)	(2,090,937,438.93)
Retirement Work In Process									
Electric	11,271,917.81	-	-	47,361.17	(4,585,851.14)	13,352,959.01	(409,586.66)	(192,547.23)	19,484,252.96
	11,271,917.81	-	-	47,361.17	(4,585,851.14)	13,352,959.01	(409,586.66)	(192,547.23)	19,484,252.96
YTD Activity	(2,030,439,913.44)	(74,384,015.70)	20,572,556.88	47,361.17	(4,585,851.14)	18,906,900.51	(840,464.46)	(729,759.79)	(2,071,453,185.97)
Amortization									
Electric	(22,052,247.99)	(3,298,343.85)	15,329,971.73	-	-	-	-	-	(10,020,620.11)
	(22,052,247.99)	(3,298,343.85)	15,329,971.73	-	-	-	-	-	(10,020,620.11)
Depreciation & Amortization Total	(2,052,492,161.43)	(77,682,359.55)	35,902,528.61	47,361.17	(4,585,851.14)	18,906,900.51	(840,464.46)	(729,759.79)	(2,081,473,806.08)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,800,863,560.52

August 21, 2009

KU Monthly Report to KPSC – June 30, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

June 30, 2009

Prepared by Regulatory Accounting and Reporting

Index
Financial and Operating Reports

Kentucky Utilities Company
June 30, 2009

Kentucky . .es Company
Comparative Statement of Income
June 30, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	105,234,573.91	121,159,678.87	(15,925,104.96)	(13.14)
Total Operating Revenues	105,234,573.91	121,159,678.87	(15,925,104.96)	(13.14)
Fuel for Electric Generation	40,542,734.14	46,603,646.90	(6,060,912.76)	(13.01)
Power Purchased	16,026,404.23	21,141,220.52	(5,114,816.29)	(24.19)
Other Operation Expenses	16,527,987.17	14,936,631.31	1,591,355.86	10.65
Maintenance	8,838,230.83	8,195,374.95	642,855.88	7.84
Depreciation	10,574,142.52	10,454,976.28	119,166.24	1.14
Amortization Expense	577,144.10	435,134.07	142,010.03	32.64
Regulatory Credits	(200,141.37)	(190,272.25)	(9,869.12)	(5.19)
Taxes				
Federal Income	(10,262,082.56)	(4,058,999.95)	(6,203,082.61)	(152.82)
State Income	(691,633.47)	754,928.74	(1,446,562.21)	(191.62)
Deferred Federal Income - Net	5,033,038.20	(2,302,638.19)	7,335,676.39	318.58
Deferred State Income - Net	262,749.86	(785,164.08)	1,047,913.94	133.46
Property and Other	2,041,227.80	1,498,971.26	542,256.54	36.18
Investment Tax Credit	5,354,113.72	9,724,999.97	(4,370,886.25)	(44.94)
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	175,392.41	164,698.58	10,693.83	6.49
Total Operating Expenses	94,799,307.58	106,573,508.11	(11,774,200.53)	(11.05)
Net Operating Income	10,435,266.33	14,586,170.76	(4,150,904.43)	(28.46)
Other Income Less Deductions				
Other Income Less Deductions	3,084,694.59	4,109,015.67	(1,024,321.08)	(24.93)
AFUDC - Equity	204,189.77	519,293.55	(315,103.78)	(60.68)
Total Other Income Less Deductions	3,288,884.36	4,628,309.22	(1,339,424.86)	(28.94)
Income Before Interest Charges	13,724,150.69	19,214,479.98	(5,490,329.29)	(28.57)
Interest on Long-term Debt	5,966,650.18	5,542,314.79	424,335.39	7.66
Amortization of Debt Expense - Net	68,302.52	61,568.70	6,733.82	10.94
Other Interest Expenses	334,143.26	243,239.50	90,903.76	37.37
AFUDC - Borrowed Funds	(84,515.11)	(175,405.14)	90,890.03	51.82
Total Interest Charges	6,284,580.85	5,671,717.85	612,863.00	10.81
Net Income	7,439,569.84	13,542,762.13	(6,103,192.29)	(45.07)

July 22, 2009

Kentucky L ..es Company
Comparative Statement of Income
June 30, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	666,295,252.16	668,496,218.37	(2,200,966.21)	(0.33)
Total Operating Revenues	666,295,252.16	668,496,218.37	(2,200,966.21)	(0.33)
Fuel for Electric Generation	214,760,509.50	232,946,182.05	(18,185,672.55)	(7.81)
Power Purchased	107,333,269.94	110,220,888.91	(2,887,618.97)	(2.62)
Other Operation Expenses	93,368,536.21	84,657,889.95	8,710,646.26	10.29
Maintenance	102,808,964.45	46,939,436.70	55,869,527.75	119.02
Depreciation	63,339,128.53	60,362,537.55	2,976,590.98	4.93
Amortization Expense	2,748,692.66	2,481,057.28	267,635.38	10.79
Regulatory Credits	(1,187,182.73)	(1,121,524.73)	(65,658.00)	(5.85)
Taxes				
Federal Income	(8,684,385.48)	21,179,387.94	(29,863,773.42)	(141.00)
State Income	775,963.36	5,604,362.68	(4,828,399.32)	(86.15)
Deferred Federal Income - Net	8,912,200.80	(6,622,475.69)	15,534,676.49	234.58
Deferred State Income - Net	315,829.70	(1,773,804.06)	2,089,633.76	117.81
Property and Other	11,773,839.15	10,175,211.57	1,598,627.58	15.71
Investment Tax Credit	10,708,227.49	12,924,999.97	(2,216,772.48)	(17.15)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	1,038,693.52	975,044.97	63,648.55	6.53
Total Operating Expenses	607,927,579.34	578,366,088.54	29,561,490.80	5.11
Net Operating Income	58,367,672.82	90,130,129.83	(31,762,457.01)	(35.24)
Other Income Less Deductions				
Other Income Less Deductions	8,143,502.11	14,335,058.67	(6,191,556.56)	(43.19)
AFUDC - Equity	2,627,512.13	2,995,868.67	(368,356.54)	(12.30)
Total Other Income Less Deductions	10,771,014.24	17,330,927.34	(6,559,913.10)	(37.85)
Income Before Interest Charges	69,138,687.06	107,461,057.17	(38,322,370.11)	(35.66)
Interest on Long-term Debt	35,307,522.08	32,808,917.48	2,498,604.60	7.62
Amortization of Debt Expense - Net	404,953.25	365,530.49	39,422.76	10.79
Other Interest Expenses	1,687,591.49	1,378,249.48	309,342.01	22.44
AFUDC - Borrowed Funds	(832,966.47)	(1,019,905.44)	186,938.97	18.33
Total Interest Charges	36,567,100.35	33,532,792.01	3,034,308.34	9.05
Net Income	32,571,586.71	73,928,265.16	(41,356,678.45)	(55.94)

July 22, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
June 30, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,401,841,087.04	1,323,292,591.13	78,548,495.91	5.94
Total Operating Revenues	1,401,841,087.04	1,323,292,591.13	78,548,495.91	5.94
Fuel for Electric Generation	494,213,798.19	476,577,383.19	17,636,415.00	3.70
Power Purchased	218,289,149.33	189,124,706.32	29,164,443.01	15.42
Other Operation Expenses	175,622,873.90	162,362,141.13	13,260,732.77	8.17
Maintenance	144,648,320.23	94,222,210.29	50,426,109.94	53.52
Depreciation	134,091,600.07	120,527,829.55	13,563,770.52	11.25
Amortization Expense	5,497,291.23	5,093,147.07	404,144.16	7.94
Regulatory Credits	(2,342,206.71)	(2,199,737.60)	(142,469.11)	(6.48)
Taxes				
Federal Income	13,320,855.39	27,730,858.05	(14,410,002.66)	(51.96)
State Income	5,225,334.61	11,521,693.35	(6,296,358.74)	(54.65)
Deferred Federal Income - Net	5,341,168.47	(6,374,402.79)	11,715,571.26	183.79
Deferred State Income - Net	(1,069,235.10)	(1,438,319.66)	369,084.56	25.66
Property and Other	22,259,721.90	19,262,889.62	2,996,832.28	15.56
Investment Tax Credit	23,050,125.49	35,741,646.97	(12,691,521.48)	(35.51)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,045,223.91	1,905,579.33	139,644.58	7.33
Total Operating Expenses	1,240,109,313.15	1,133,474,518.27	106,634,794.88	9.41
Net Operating Income	161,731,773.89	189,818,072.86	(28,086,298.97)	(14.80)
Other Income Less Deductions				
Other Income Less Deductions	23,189,633.41	29,980,945.23	(6,791,311.82)	(22.65)
AFUDC - Equity	5,672,612.02	5,069,063.12	603,548.90	11.91
Total Other Income Less Deductions	28,862,245.43	35,050,008.35	(6,187,762.92)	(17.65)
Income Before Interest Charges	190,594,019.32	224,868,081.21	(34,274,061.89)	(15.24)
Interest on Long-term Debt	70,829,159.82	59,776,510.80	11,052,649.02	18.49
Amortization of Debt Expense - Net	782,993.28	730,660.14	52,333.14	7.16
Other Interest Expenses	4,934,507.35	5,285,978.91	(351,471.56)	(6.65)
AFUDC - Borrowed Funds	(1,861,529.44)	(1,616,357.14)	(245,172.30)	(15.17)
Total Interest Charges	74,685,131.01	64,176,792.71	10,508,338.30	16.37
Net Income	115,908,888.31	160,691,288.50	(44,782,400.19)	(27.87)

July 22, 2009

Kentucky U... ...es Company
Analysis of Retained Earnings
June 30, 2009

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance at Beginning of Period............................	1,209,860,360.29	10,234,273.35	1,174,207,029.97	20,755,586.80	1,089,791,757.17	21,833,558.00
Add:						
Net Income for Period..................................	7,439,569.84		32,571,586.71		115,908,888.31	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc...	(250,571.00)	250,571.00	(1,429,257.55)	1,429,257.55	(15,351,286.35)	15,351,286.35
Dividends Received Current Year -EE Inc...	(850,000.00)	850,000.00	10,850,000.00	(10,850,000.00)	25,850,000.00	(25,850,000.00)
Balance at End of Period.................................	1,216,199,359.13	11,334,844.35	1,216,199,359.13	11,334,844.35	1,216,199,359.13	11,334,844.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	11,334,844.35	11,334,844.35	11,334,844.35
Statutory Tax Rate...	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary.....................	4,409,254.45	4,409,254.45	4,409,254.45

Combined Balance of Retained Earnings	12 MONTHS 6/30/2009	12 MONTHS 6/30/2008
Retained Earnings at Beginning of Period....................	1,111,625,315.17	950,926,338.67
Net Income...	115,908,888.31	160,691,288.50
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period.........................	1,227,534,203.48	1,111,625,315.17

July 22, 2009

Kentucky -s Company
Comparative Balance Sheets as of June 30, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,852,556,444.10	5,294,849,147.14
Less Reserves for Depreciation and Amortization	2,077,571,983.20	1,991,981,965.43
Total	3,774,984,460.90	3,302,867,181.71
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	12,630,644.35	23,129,358.00
Special Funds	-	6,113,216.76
Other	411,140.00	411,140.00
Total	13,470,905.29	30,082,835.70
Current and Accrued Assets		
Cash	3,216,640.34	-
Special Deposits	-	46,074.58
Temporary Cash Investments	269.25	17,747.45
Accounts Receivable-Less Reserve	165,129,544.91	161,460,149.35
Accounts Receivable from Associated Companies	844,526.78	344,612.94
Materials and Supplies-At Average Cost		
Fuel	98,117,467.48	55,673,865.46
Plant Materials and Operating Supplies	30,153,890.88	28,419,719.30
Stores Expense	6,597,946.45	6,360,857.76
Allowance Inventory	1,819,611.44	153,758.39
Prepayments	2,353,098.70	1,997,383.29
Miscellaneous Current and Accrued Assets	3,167,867.77	-
Total	311,400,864.00	254,474,168.52
Deferred Debits and Other		
Unamortized Debt Expense	4,931,662.39	6,576,776.57
Unamortized Loss on Bonds	13,281,560.85	10,799,583.10
Accumulated Deferred Income Taxes	50,525,590.17	49,891,465.49
Deferred Regulatory Assets	225,140,247.31	83,950,111.81
Other Deferred Debits	42,345,445.04	71,398,858.40
Total	336,224,505.76	222,616,795.37
Total Assets and Other Debits	4,436,080,735.95	3,810,040,981.30

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	315,711,597.00	165,000,000.00
Retained Earnings	1,216,199,359.13	1,089,791,757.17
Unappropriated Undistributed Subsidiary Earnings	11,334,844.35	21,833,558.00
Total Common Equity	1,851,064,489.17	1,584,444,003.86
Pollution Control Bonds	350,779,405.00	303,159,520.00
LT Notes Payable to Associated Companies	1,231,000,000.00	1,006,000,000.00
Total Long-term Debt	1,581,779,405.00	1,309,159,520.00
Total Capitalization	3,432,843,894.17	2,893,603,523.86
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	60,555,954.00	75,443,454.00
Accounts Payable	144,813,434.11	169,448,316.61
Accounts Payable to Associated Companies	16,673,861.42	38,973,508.41
Customer Deposits	21,813,261.32	20,035,431.39
Taxes Accrued	9,088,935.23	2,085,829.63
Interest Accrued	14,840,846.40	11,957,339.52
Miscellaneous Current and Accrued Liabilities	19,875,383.92	15,077,184.30
Total	287,661,676.40	333,021,063.86
Deferred Credits and Other		
Accumulated Deferred Income Taxes	336,071,159.62	328,624,919.89
Investment Tax Credit	90,600,852.28	67,766,958.27
Regulatory Liabilities	43,578,072.45	38,137,476.53
Customer Advances for Construction	2,424,841.42	2,355,756.02
Asset Retirement Obligations	33,604,803.66	31,290,104.23
Other Deferred Credits	29,926,675.36	25,359,609.29
Miscellaneous Long-term Liabilities	2,670,860.19	3,061,288.78
Accum Provision for Postretirement Benefits	176,697,900.40	86,820,280.57
Total	715,575,165.38	583,416,393.58
Total Liabilities and Other Credits	4,436,080,735.95	3,810,040,981.30

July 22, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
June 30, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			315,711,597.00		
Retained Earnings			1,216,199,359.13		
Unappropriated Undistributed Subsidiary Earnings			11,334,844.35		
Total Common Equity			1,851,064,489.17	52.99	53.92
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.03	10.22
Long-term Notes Payable to Associated Companies			1,231,000,000.00	35.25	35.86
Total Capitalization			3,432,843,894.17	98.27	100.00
Short-term Notes Payable to Associated Companies			60,555,954.00	1.73	
Total Capitalization and Short-term Debt			3,493,399,848.17	100.00	

July 22, 2009

Kentucky Utilities Company
Summary Trial Balance
June 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,852,556,444.10	5,852,556,444.10
Reserves for Depreciation and Amortization		(2,077,571,983.20)
Depreciation	(2,067,922,560.00)	
Amortization of Plant	(9,649,423.20)	
Investments		13,470,905.29
Investments in Subsidiary Companies	12,630,644.35	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	3,216,640.34	3,216,640.34
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		165,129,544.91
Customers - Active	96,788,251.56	
Unbilled Revenues	43,270,010.89	
Income Tax Receivable - Federal	8,874,374.27	
OMU Reserve Funds	6,368,361.74	
IMPA	3,069,597.07	
IMEA	2,888,471.78	
Transmission Sales	469,508.87	
Damage Claims	177,065.19	
Employee Computer Loans	52,615.52	
Working Funds	39,367.13	
Wholesale Sales	24,014.92	
Electricity Swaps	23,319.15	
Interest and Dividends Receivable	16,666.11	
Other	3,968,353.52	
Utility Customers		
Charged Off	1,530,988.51	
Accrual	(1,076,699.53)	
Reserve	(869,214.00)	
Recoveries	(454,185.79)	
A/R Miscellaneous	(31,322.00)	
Accounts Receivable from Associated Companies		844,526.78
E.ON US Services/Louisville Gas and Electric Company	844,526.78	

July 22, 2009

Kentucky Utilities Company
Summary Trial Balance
June 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		98,117,467.48
Coal 1,470,102.19 Tons @ $62.65 MMBtu 34,377,935.50 @ 267.92¢	92,106,015.48	
Fuel Oil 3,003,058.00 Gallons @ 198.17¢	5,951,222.08	
Gas Pipeline 12,223.30 Mcf @ $4.92	60,229.92	
Plant Materials and Operating Supplies		30,153,890.88
Regular Materials and Supplies	29,420,369.03	
Limestone 91,481.36 Tons @ $8.02	733,521.85	
Stores Expense Undistributed	6,597,946.45	6,597,946.45
Allowance Inventory	1,819,611.44	1,819,611.44
Prepayments		2,353,098.70
Insurance	1,615,090.61	
Vehicle License	77,111.32	
Risk Management and Workers Compensation	75,000.00	
Other	585,896.77	
Miscellaneous Current Assets		3,167,867.77
Derivative Asset - Non-Hedging	3,167,867.77	
Unamortized Debt Expense		4,931,662.39
Carroll County 2002 Series A due 02/01/32 Var%	88,500.34	
Carroll County 2002 Series B due 02/01/32 Var%	61,513.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	68,477.11	
Mercer County 2002 Series A due 02/01/32 Var%	24,698.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,632,917.78	
Carroll County 2006 Series B due 10/01/34 Var%	1,157,760.02	
Carroll County 2007 Series A due 02/01/26 5.75%	519,596.13	
Trimble County 2007 Series A due 03/01/37 6.00%	428,582.28	
Carroll County 2008 Series A due 02/01/32 Var%	734,290.15	
Short-Term Portion	215,326.56	
Unamortized Loss on Bonds	13,281,560.85	13,281,560.85
Accumulated Deferred Income Taxes		50,525,590.17
Federal	42,629,659.24	
State	7,895,930.93	
Regulatory Assets		225,140,247.31
Pension and Postretirement Benefits	126,832,090.11	
Environmental Cost Recovery	30,797,739.00	
Asset Retirement Obligations	29,058,499.39	
SFAS 109 - Deferred Taxes	11,545,602.20	
MISO Exit Fee	11,531,697.56	
Fuel Adjustment Clause	4,464,000.00	
FERC Jurisdictional Pension Expense	3,336,294.12	
2008 Wind Storm	2,195,516.35	
VA Fuel Component	1,896,257.00	
EKPC FERC Transmission Cost	1,561,919.58	
Rate Case Expenses	1,227,198.23	
KCCS Funding	693,433.77	
Other Deferred Debits	42,345,445.04	42,345,445.04
Total Assets and Other Debits	4,436,080,735.95	4,436,080,735.95

July 22, 2009

Kentucky Utilities Company
Summary Trial Balance
June 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,851,064,489.17
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	315,711,597.00	
Retained Earnings	1,216,199,359.13	
Unappropriated Undistributed Subsidiary Earnings	11,334,844.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,231,000,000.00	1,231,000,000.00
Short-term Notes Payable to Associated Companies	60,555,954.00	60,555,954.00
Accounts Payable		144,813,434.11
Regular	142,960,915.82	
Salaries and Wages Accrued	1,886,336.56	
Employee Withholdings Payable	(33,818.27)	
Accounts Payable to Associated Companies		16,673,861.42
E.ON US Services/Louisville Gas and Electric Company	16,673,861.42	
Customers' Deposits	21,813,261.32	21,813,261.32
Taxes Accrued	9,088,935.23	9,088,935.23
Interest Accrued		14,840,846.40
Mercer County 2000 Series A due 05/01/23 Var%	4,467.78	
Carroll County 2002 Series A due 02/01/32 Var%	35,322.96	
Carroll County 2002 Series B due 02/01/32 Var%	4,050.39	
Muhlenburg County 2002 Series A due 02/01/32 Var%	4,050.39	
Mercer County 2002 Series A due 02/01/32 Var%	12,488.76	
Carroll County 2002 Series C due 10/01/32 Var%	12,394.62	
Carroll County 2004 Series A due 10/01/34 Var%	11,986.32	
Carroll County 2006 Series B due 10/01/34 Var%	20,268.50	
Carroll County 2007 Series A due 02/01/26 5.75%	85,651.04	
Trimble County 2007 Series A due 03/01/37 6.00%	44,635.00	
Carroll County 2008 Series A due 02/01/32 Var%	27,121.45	
Fidelia	13,917,504.02	
Customers' Deposits	528,266.69	
Other	132,638.48	

July 22, 2009

Kentucky Utilities Company
Summary Trial Balance
June 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		19,875,383.92
Vacation Pay Accrued	5,780,053.25	
Tax Collections Payable	4,586,250.84	
Franchise Fee Payable	4,146,066.12	
Customer Overpayments	3,056,088.45	
OMU Excess	1,485,671.79	
Derivative Liabilities - Non-Hedging	234,348.33	
Other	586,905.14	
Accumulated Deferred Income Taxes		336,071,159.62
Federal	291,495,512.02	
State	44,575,647.60	
Investment Tax Credit		90,600,852.28
Advance Coal Credit	90,541,772.46	
Job Development Credit	59,079.82	
Regulatory Liabilities		43,578,072.45
Deferred Taxes	24,299,164.63	
DSM Cost Recovery	10,036,714.61	
Asset Retirement Obligations	4,022,669.91	
MISO Schedule 10 Charges	3,642,584.70	
Spare Parts	1,576,938.60	
Customers' Advances for Construction		2,424,841.42
Line Extensions	1,571,931.34	
Customer Advances	160,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	688,314.18	
Asset Retirement Obligations	33,604,803.66	33,604,803.66
Other Deferred Credits	29,926,675.36	29,926,675.36
Miscellaneous Long-term Liabilities		2,670,860.19
Workers' Compensation	2,670,860.19	
Accumulated Provision for Benefits		176,697,900.40
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	66,032,103.54	
Post Employment Benefits Payable	5,743,518.00	
Medicare Subsidy - SFAS 106	(5,093,742.14)	
Post Employment Medicare Subsidy	(233,923.00)	
Total Liabilities and Other Credits	4,436,080,735.95	4,436,080,735.95

July 22, 2009

Kentucky Utilities Company
Statement of Cash Flows
June 30, 2009

	Year to Date 2009	Year to Date 2008
Cash Flows from Operating Activities		
Net income	32,571,586.71	73,928,265.16
Items not requiring (providing) cash currently:		
Depreciation	63,339,128.53	60,362,537.55
Amortization	2,748,692.66	2,481,057.28
Deferred income taxes - net	9,228,030.50	(3,809,810.76)
Investment tax credit - net	10,708,227.49	12,767,845.95
Other	13,212,544.38	3,842,062.74
Change in receivables	18,012,230.79	26,945,545.45
Change in inventory	(26,397,271.97)	(14,858,980.67)
Change in allowance inventory	(1,745,192.16)	229,135.72
Change in payables and accrued expenses	(5,279,580.11)	16,753,618.26
Change in regulatory assets	(36,109,828.59)	(1,784,861.19)
Change in regulatory liabilities	3,094,789.85	416,440.45
Change in other deferred debits	34,441,409.15	(2,305,590.76)
Change in other deferred credits	8,217,596.04	11,923,465.69
Other	(39,318,999.59)	(6,871,917.27)
Gain on disposal of assets	(49,551.71)	-
Less: Allowance for other funds used during construction	(3,460,478.60)	(4,015,774.11)
Less: Undistributed earnings of subsidiary company	9,420,742.45	(626,490.00)
Net cash provided (used) by operating activities	92,634,075.82	175,376,549.49
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(271,076,681.26)	(363,184,720.89)
Less: Allowance for other funds used during construction	3,460,478.60	4,015,774.11
Proceeds received from sales of property	49,551.71	1,175.00
Change in non-hedging derivatives	(1,715,351.03)	385,022.61
Change in other special funds	(307,816.40)	(197,332.69)
Change in restricted cash	9,041,466.83	10,939,481.20
Net cash provided (used) by investing activities	(260,548,351.55)	(348,040,600.66)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	49,409,326.66	74,712,907.95
Net change in short-term debt	44,308,500.00	52,224,000.00
Payments for reacquisition of long-term debt	-	(29,593,620.00)
Contributed capital	75,000,000.00	75,000,000.00
Net cash provided (used) by financing activities	168,717,826.66	172,343,287.95
Net Increase (Decrease) in Cash and Cash Equivalents	803,550.93	(320,763.22)
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,216,909.59	17,747.48

July 22, 2009

Kentucky .es Company
Analysis of Interest Charges
June 30, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%.............	4,467.29	(28,020.49)	36,710.21	289,040.62	42,807.67	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%.............	18,923.01	29,450.68	117,746.48	205,091.60	296,807.24	594,859.69
Carroll County 2002 Series B due 02/01/32 Var%.............	2,169.86	3,377.05	13,501.74	23,517.43	34,034.28	68,211.32
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,169.86	3,377.05	13,501.74	23,517.43	34,034.28	68,211.32
Mercer County 2002 Series A due 02/01/32 Var%.............	6,690.41	10,412.57	41,630.39	72,512.09	104,939.03	210,318.28
Carroll County 2002 Series C due 10/01/32 Var%.............	31,680.00	265,840.00	281,965.32	1,957,871.99	1,886,429.32	4,002,666.66
Carroll County 2004 Series A due 10/01/34 Var%.............	11,986.30	244,791.67	137,260.27	1,404,409.72	283,213.15	2,428,159.72
Carroll County 2005 Series A due 06/01/35 Var%.............	-	38,767.13	-	262,293.13	181,560.52	528,026.45
Carroll County 2005 Series B due 06/01/35 Var%.............	-	38,767.13	-	260,987.81	181,908.78	518,497.45
Carroll County 2006 Series A due 06/01/36 Var%.............	-	57,818.35	-	379,726.53	452,234.81	723,754.22
Carroll County 2006 Series C due 06/01/36 Var%.............	-	(45,118.40)	-	338,393.58	(53.57)	682,080.44
Carroll County 2006 Series B due 10/01/34 Var%.............	20,268.49	233,241.00	187,328.22	1,216,756.50	1,855,735.41	2,305,621.50
Carroll County 2007 Series A due 02/01/26 5.75%...........	85,651.04	85,651.04	513,906.25	471,780.82	1,027,812.52	845,477.56
Trimble County 2007 Series A due 03/01/37 6.00%............	44,635.00	44,635.00	267,810.00	241,130.67	535,620.03	427,848.79
Carroll County 2008 Series A due 02/01/32 Var%.............	27,121.43	-	266,836.40	-	592,256.15	-
Fidelia..	5,710,887.49	4,559,325.01	33,429,325.06	25,661,887.56	63,319,820.20	45,817,584.70
Hardin Promissory Note.....................................	-	-	-	-	-	266,152.08
Total..	5,966,650.18	5,542,314.79	35,307,522.08	32,808,917.48	70,829,159.82	59,776,510.80
Amortization of Debt Expense - Net						
Amortization of Debt Expense...............................	17,943.88	21,976.57	104,827.08	139,144.77	215,993.59	286,006.42
Amortization of Loss on Reacquired Debt....................	50,358.64	39,592.13	300,126.17	226,385.72	566,999.69	444,653.72
Total..	68,302.52	61,568.70	404,953.25	365,530.49	782,993.28	730,660.14
Other Interest Charges						
Customers' Deposits..	103,766.10	87,505.86	607,570.23	580,504.04	1,179,271.65	1,119,144.53
Other Tax Deficiencies.....................................	-	-	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery..............................	2,864.02	-	26,969.75	-	62,255.62	-
Interest on Debt to Associated Companies...................	20,141.72	148,215.56	92,899.12	773,681.50	1,626,474.18	4,146,194.44
AFUDC Borrowed Funds.......................................	(84,515.11)	(175,405.14)	(832,966.47)	(1,019,905.44)	(1,861,529.44)	(1,616,357.14)
Other Interest Expense.....................................	207,371.42	7,518.08	960,152.39	7,526.24	2,063,625.90	7,526.24
Total..	249,628.15	67,834.36	854,625.02	358,344.04	3,072,977.91	3,669,621.77
Total Interest...	6,284,580.85	5,671,717.85	36,567,100.35	33,532,792.01	74,685,131.01	64,176,792.71

July 22, 2009

Kentucky U[illegible]ies Company
Analysis of Taxes Charged and Accrued
June 30, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,025,101.01	7,215,502.96	6,150,606.06
Unemployment	8,109.04	6,872.72	125,770.30	568,895.48
FICA	576,831.48	316,193.69	3,496,900.94	2,528,238.41
Public Service Commission Fee	149,395.94	149,209.68	896,375.39	895,258.33
Federal Income	(10,262,082.56)	(4,058,999.95)	(8,684,385.48)	21,179,387.94
State Income	(691,633.47)	754,928.74	775,963.36	5,604,362.68
Miscellaneous	2,601.18	1,594.16	39,289.56	32,213.29
Total Charged to Operating Expense	(8,912,488.23)	(1,805,099.95)	3,865,417.03	36,958,962.19
Taxes Charged to Other Accounts	1,965,555.43	(1,621,204.73)	12,252,507.31	5,905,295.82
Taxes Accrued on Intercompany Accounts	(232,068.68)	(175,621.68)	(1,339,817.48)	(1,092,966.74)
Total Taxes Charged	(7,179,001.48)	(3,601,926.36)	14,778,106.86	41,771,291.27

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	7,513,837.64	6,791,275.47	7,514,577.41
Unemployment	48,319.14	85,140.35	132,222.62	1,236.87
FICA	553,448.29	3,038,910.34	3,270,216.80	322,141.83
Federal Income	546,249.77	1,305,414.08	1,851,663.85	-
State Income	10,477.99	910,129.07	158,241.00	762,366.06
Kentucky Sales and Use Tax	577,873.18	1,825,187.11	1,938,993.88	464,066.41
Miscellaneous	30,176.34	99,488.27	105,117.96	24,546.65
Totals	8,558,559.95	14,778,106.86	14,247,731.58	9,088,935.23

July 22, 2009

Kentucky Company
Summary of Utility Plant
June 30, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	10,149,714.10	(276,880.55)	4,959.77	9,877,793.32	1,119,320,038.23
Electric General Plant	106,382,748.13	7,524,939.25	(5,731,711.64)	-	1,793,227.61	108,175,975.74
Electric Hydro Production	11,831,164.24	141,115.83	-	278,123.83	419,239.66	12,250,403.90
Electric Intangible Plant	26,829,943.42	38,588,415.78	(15,151,517.45)	-	23,436,898.33	50,266,841.75
Electric Other Production	503,050,995.17	8,447,465.54	(3,072,744.37)	12,329,547.37	17,704,268.54	520,755,263.71
Electric Steam Production	1,715,546,561.48	15,384,026.27	(2,692,328.24)	13,895,917.08	26,587,615.11	1,742,134,176.59
Electric Transmission	525,624,959.67	10,829,562.78	(2,372,673.26)	(26,508,548.05)	(18,051,658.53)	507,573,301.14
Total 101 Accounts	3,998,708,617.02	91,065,239.55	(29,297,855.51)	-	61,767,384.04	4,060,476,001.06
105 Plant Held for Future Use						
Electric						
Electric Steam	10,137,561.95	-	-	-	-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	17,715,075.78	-	-	17,715,075.78	139,614,391.51
Electric General Plant	2,677,508.16	(1,953,911.97)	-	-	(1,953,911.97)	723,596.19
Electric Hydro Production	11,732.37	57,076.39	-	-	57,076.39	68,808.76
Electric Intangible Plant	1,058,583.09	(28,203.71)	-	-	(28,203.71)	1,030,379.38
Electric Other Production	210,168.91	868,972.14	-	-	868,972.14	1,079,141.05
Electric Steam Production	307,830,864.65	187,901,752.47	-	-	187,901,752.47	495,732,617.12
Electric Transmission	3,483,426.89	12,604,180.37	-	-	12,604,180.37	16,087,607.26
Total 106 Accounts	437,171,599.80	217,164,941.47	-	-	217,164,941.47	654,336,541.27
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	(48,833,831.95)	-	-	(48,833,831.95)	1,127,606,339.82
Total 107001	1,176,440,171.77	(48,833,831.95)	-	-	(48,833,831.95)	1,127,606,339.82
Total Plant (Non-CWIP)	4,446,196,899.71	308,230,181.02	(29,297,855.51)	-	278,932,325.51	4,725,129,225.22
Total Plant + CWIP	5,622,637,071.48	259,396,349.07	(29,297,855.51)	-	230,098,493.56	5,852,735,565.04
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	259,396,349.07	(29,297,855.51)	-	230,098,493.56	5,852,556,444.10

July 22, 2009

Kentucky Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
June 30, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(12,639,114.29)	276,880.55	(37.05)	-	-	-	7,989.08	(399,439,496.56)
Electric Distribution - ARO	(6,386.40)	(91.32)	-	-	-	-	-	-	(6,477.72)
Electric General Plant	(54,006,194.03)	(2,501,321.66)	5,731,711.64	-	-	-	-	-	(50,775,804.05)
Electric Hydro Production	(7,591,558.65)	(49,065.20)	-	(91,028.80)	-	-	-	-	(7,731,652.65)
Electric Hydro Production - ARO	(1,811.92)	(25.92)	-	-	-	-	-	-	(1,837.84)
Electric Other Production	(130,098,501.03)	(8,237,368.18)	3,072,744.37	(1,887,563.75)	-	-	-	-	(137,150,688.59)
Electric Other Production - ARO	(32,068.56)	(1,221.42)	-	-	-	-	-	-	(33,289.98)
Electric Steam Production	(904,811,374.27)	(26,782,886.06)	2,692,328.24	(5,374,522.03)	-	-	-	-	(934,276,454.12)
Electric Steam Production - ARO	(4,615,135.75)	(147,095.98)	-	(2,024.05)	-	-	-	-	(4,764,255.78)
Electric Transmission	(208,518,367.58)	(3,917,511.78)	2,372,673.26	7,353,151.63	-	-	-	(191,211.84)	(202,901,266.31)
Electric Transmission - ARO	(4,580.08)	(54.57)	-	2,024.05	-	-	-	-	(2,610.60)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(54,275,756.38)	14,146,338.06	-	-	-	-	(183,222.76)	(1,737,083,834.20)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(4,232,026.90)	-	(44.08)	-	636,127.15	-	-	(203,468,259.17)
Electric General Plant	152,325.56	(16,368.26)	-	-	-	42,771.48	-	-	178,728.78
Electric Hydro Production	(669,680.63)	(4,700.19)	-	(16,118.61)	-	-	-	-	(690,499.43)
Electric Other Production	(1,644,839.43)	(366,759.01)	-	(95,060.99)	-	192,308.39	-	-	(1,914,351.04)
Electric Steam Production	(85,505,341.30)	(5,924,743.85)	-	(31,815.78)	-	623,458.34	-	-	(90,838,442.59)
Electric Transmission	(140,724,513.55)	(1,545,744.85)	-	143,039.46	-	2,272,413.04	-	-	(139,854,805.90)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(12,090,343.06)	-	-	-	3,767,078.40	-	-	(436,587,629.35)
Salvage									
Electric Distribution	45,600,359.15	983,399.17	-	-	-	-	(4,624.76)	-	46,579,133.56
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	1,373,773.46	-	-	-	-	(20,000.00)	-	15,876,419.88
Electric Transmission	22,387,639.10	316,837.15	-	-	-	-	(400,908.60)	-	22,303,567.65
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	2,676,355.39	-	-	-	-	(425,533.36)	-	85,574,548.59
Total Reserves									
Electric Distribution	(541,357,171.04)	(15,887,742.02)	276,880.55	(81.13)	-	636,127.15	(4,624.76)	7,989.08	(556,328,622.17)
Electric Distribution - ARO	(6,386.40)	(91.32)	-	-	-	-	-	-	(6,477.72)
Electric General Plant	(53,705,999.58)	(2,515,541.61)	5,731,711.64	-	-	42,771.48	-	-	(50,447,058.07)
Electric Hydro Production	(8,214,917.89)	(53,568.09)	-	(107,147.41)	-	-	-	-	(8,375,633.39)
Electric Hydro Production - ARO	(1,811.92)	(25.92)	-	-	-	-	-	-	(1,837.84)
Electric Other Production	(131,124,448.85)	(8,604,127.19)	3,072,744.37	(1,982,624.74)	-	192,308.39	-	-	(138,446,148.02)
Electric Other Production - ARO	(32,068.56)	(1,221.42)	-	-	-	-	-	-	(33,289.98)
Electric Steam Production	(975,794,069.15)	(31,333,856.45)	2,692,328.24	(5,406,337.81)	-	623,458.34	(20,000.00)	-	(1,009,238,476.83)
Electric Steam Production - ARO	(4,615,135.75)	(147,095.98)	-	(2,024.05)	-	-	-	-	(4,764,255.78)
Electric Transmission	(326,855,242.03)	(5,146,419.48)	2,372,673.26	7,496,191.09	-	2,272,413.04	(400,908.60)	(191,211.84)	(320,452,504.56)
Electric Transmission - ARO	(4,580.08)	(54.57)	-	2,024.05	-	-	-	-	(2,610.60)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(63,689,744.05)	14,146,338.06	-	-	3,767,078.40	(425,533.36)	(183,222.76)	(2,088,096,914.96)
Retirement Work in Process									
Electric	11,271,917.81	-	-	47,361.17	(3,158,322.28)	12,421,589.41	(366,597.05)	(41,594.10)	20,174,354.96
	11,271,917.81	-	-	47,361.17	(3,158,322.28)	12,421,589.41	(366,597.05)	(41,594.10)	20,174,354.96
YTD Activity	(2,030,439,913.44)	(63,689,744.05)	14,146,338.06	47,361.17	(3,158,322.28)	16,188,667.81	(792,130.41)	(224,816.86)	(2,067,922,560.00)
Amortization									
Electric	(22,052,247.99)	(2,748,692.66)	15,151,517.45	-	-	-	-	-	(9,649,423.20)
	(22,052,247.99)	(2,748,692.66)	15,151,517.45	-	-	-	-	-	(9,649,423.20)
Depreciation & Amortization Total	(2,052,492,161.43)	(66,438,436.71)	29,297,855.51	47,361.17	(3,158,322.28)	16,188,667.81	(792,130.41)	(224,816.86)	(2,077,571,983.20)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,774,984,460.90

July 22, 2009

KU Monthly Report to KPSC – May 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

May 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
May 31, 2009

Kentucky ˛ ˛ies Company
Comparative Statement of Income
May 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	96,761,473.82	99,755,380.96	(2,993,907.14)	(3.00)
Total Operating Revenues	96,761,473.82	99,755,380.96	(2,993,907.14)	(3.00)
Fuel for Electric Generation	31,299,272.41	31,177,070.48	122,201.93	0.39
Power Purchased	10,732,633.53	16,649,385.90	(5,916,752.37)	(35.54)
Other Operation Expenses	13,205,787.91	14,562,057.84	(1,356,269.93)	(9.31)
Maintenance	7,546,233.59	10,211,189.82	(2,664,956.23)	(26.10)
Depreciation	10,453,866.88	9,659,973.16	793,893.72	8.22
Amortization Expense	602,493.84	429,857.35	172,636.49	40.16
Regulatory Credits	(199,224.28)	(172,309.04)	(26,915.24)	(15.62)
Taxes				
Federal Income	4,830,406.80	3,888,005.50	942,401.30	24.24
State Income	880,925.25	1,137,542.44	(256,617.19)	(22.56)
Deferred Federal Income - Net	-	(841,274.00)	841,274.00	100.00
Deferred State Income - Net	-	(549,936.00)	549,936.00	100.00
Property and Other	2,012,056.09	2,078,286.82	(66,230.73)	(3.19)
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	174,475.34	149,714.63	24,760.71	16.54
Total Operating Expenses	81,538,927.36	88,379,564.90	(6,840,637.54)	(7.74)
Net Operating Income	15,222,546.46	11,375,816.06	3,846,730.40	33.82
Other Income Less Deductions				
Other Income Less Deductions	(725,500.31)	1,588,109.73	(2,313,610.04)	(145.68)
AFUDC - Equity	201,251.07	584,097.29	(382,846.22)	(65.54)
Total Other Income Less Deductions	(524,249.24)	2,172,207.02	(2,696,456.26)	(124.13)
Income Before Interest Charges	14,698,297.22	13,548,023.08	1,150,274.14	8.49
Interest on Long-term Debt	6,007,008.76	5,490,521.54	516,487.22	9.41
Amortization of Debt Expense - Net	68,302.52	61,451.85	6,850.67	11.15
Other Interest Expenses	259,611.37	307,512.09	(47,900.72)	(15.58)
AFUDC - Borrowed Funds	(83,298.69)	(197,294.31)	113,995.62	57.78
Total Interest Charges	6,251,623.96	5,662,191.17	589,432.79	10.41
Net Income	8,446,673.26	7,885,831.91	560,841.35	7.11

June 19, 2009

Kentucky ... ıes Company
Comparative Statement of Income
May 31, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	561,060,678.25	547,336,539.50	13,724,138.75	2.51
Total Operating Revenues	561,060,678.25	547,336,539.50	13,724,138.75	2.51
Fuel for Electric Generation	174,217,775.36	186,342,535.15	(12,124,759.79)	(6.51)
Power Purchased	91,306,865.71	89,079,668.39	2,227,197.32	2.50
Other Operation Expenses	76,840,549.04	69,721,258.64	7,119,290.40	10.21
Maintenance	93,970,733.62	38,744,061.75	55,226,671.87	142.54
Depreciation	52,764,986.01	49,907,561.27	2,857,424.74	5.73
Amortization Expense	2,171,548.56	2,045,923.21	125,625.35	6.14
Regulatory Credits	(987,041.36)	(931,252.48)	(55,788.88)	(5.99)
Taxes				
Federal Income	1,577,697.08	25,238,387.89	(23,660,690.81)	(93.75)
State Income	1,467,596.83	4,849,433.94	(3,381,837.11)	(69.74)
Deferred Federal Income - Net	3,879,162.60	(4,319,837.50)	8,199,000.10	189.80
Deferred State Income - Net	53,079.84	(988,639.98)	1,041,719.82	105.37
Property and Other	9,732,611.35	8,676,240.31	1,056,371.04	12.18
Investment Tax Credit	5,354,113.77	3,200,000.00	2,154,113.77	67.32
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	863,301.11	810,346.39	52,954.72	6.53
Total Operating Expenses	513,128,271.76	471,792,580.43	41,335,691.33	8.76
Net Operating Income	47,932,406.49	75,543,959.07	(27,611,552.58)	(36.55)
Other Income Less Deductions				
Other Income Less Deductions	5,058,807.52	10,226,043.00	(5,167,235.48)	(50.53)
AFUDC - Equity	2,423,322.36	2,476,575.12	(53,252.76)	(2.15)
Total Other Income Less Deductions	7,482,129.88	12,702,618.12	(5,220,488.24)	(41.10)
Income Before Interest Charges	55,414,536.37	88,246,577.19	(32,832,040.82)	(37.20)
Interest on Long-term Debt	29,340,871.90	27,266,602.69	2,074,269.21	7.61
Amortization of Debt Expense - Net	336,650.73	303,961.79	32,688.94	10.75
Other Interest Expenses	1,353,448.23	1,135,009.98	218,438.25	19.25
AFUDC - Borrowed Funds	(748,451.36)	(844,500.30)	96,048.94	11.37
Total Interest Charges	30,282,519.50	27,861,074.16	2,421,445.34	8.69
Net Income	25,132,016.87	60,385,503.03	(35,253,486.16)	(58.38)

June 19, 2009

Kentucky ιes Company
Comparative Statement of Income
May 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,417,766,192.00	1,304,037,501.19	113,728,690.81	8.72
Total Operating Revenues	1,417,766,192.00	1,304,037,501.19	113,728,690.81	8.72
Fuel for Electric Generation	500,274,710.95	470,251,084.70	30,023,626.25	6.38
Power Purchased	223,403,965.62	181,986,395.32	41,417,570.30	22.76
Other Operation Expenses	174,031,518.04	161,195,202.78	12,836,315.26	7.96
Maintenance	144,005,464.35	93,481,952.17	50,523,512.18	54.05
Depreciation	133,972,433.83	119,599,160.32	14,373,273.51	12.02
Amortization Expense	5,355,281.20	5,143,196.99	212,084.21	4.12
Regulatory Credits	(2,332,337.59)	(2,189,097.18)	(143,240.41)	(6.54)
Taxes				
Federal Income	19,523,938.00	30,203,039.17	(10,679,101.17)	(35.36)
State Income	6,671,896.82	11,823,458.60	(5,151,561.78)	(43.57)
Deferred Federal Income - Net	(1,994,507.92)	(8,207,906.74)	6,213,398.82	75.70
Deferred State Income - Net	(2,117,149.04)	(1,201,009.62)	(916,139.42)	(76.28)
Property and Other	21,717,465.36	19,406,735.71	2,310,729.65	11.91
Investment Tax Credit	27,421,011.74	35,891,647.00	(8,470,635.26)	(23.60)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,034,530.08	1,895,969.81	138,560.27	7.31
Total Operating Expenses	1,251,883,513.68	1,118,696,722.48	133,186,791.20	11.91
Net Operating Income	165,882,678.32	185,340,778.71	(19,458,100.39)	(10.50)
Other Income Less Deductions				
Other Income Less Deductions	24,213,954.49	29,563,840.41	(5,349,885.92)	(18.10)
AFUDC - Equity	5,987,715.80	4,755,833.52	1,231,882.28	25.90
Total Other Income Less Deductions	30,201,670.29	34,319,673.93	(4,118,003.64)	(12.00)
Income Before Interest Charges	196,084,348.61	219,660,452.64	(23,576,104.03)	(10.73)
Interest on Long-term Debt	70,404,824.43	57,921,206.32	12,483,618.11	21.55
Amortization of Debt Expense - Net	776,259.46	732,774.53	43,484.93	5.93
Other Interest Expenses	4,843,603.59	6,033,284.07	(1,189,680.48)	(19.72)
AFUDC - Borrowed Funds	(1,952,419.47)	(1,500,017.01)	(452,402.46)	(30.16)
Total Interest Charges	74,072,268.01	63,187,247.91	10,885,020.10	17.23
Net Income	122,012,080.60	156,473,204.73	(34,461,124.13)	(22.02)

June 19, 2009

Kentucky ..es Company
Analysis of Retained Earnings
May 31, 2009

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance at Beginning of Period............................	1,195,260,780.03	16,387,180.35	1,174,207,029.97	20,755,586.80	1,079,699,580.24	18,382,972.80
Add:						
Net Income for Period.................................	8,446,673.26		25,132,016.87		122,012,080.60	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..	302,907.00	(302,907.00)	(1,178,686.55)	1,178,686.55	(18,551,300.55)	18,551,300.55
Dividends Received Current Year -EE Inc..	5,850,000.00	(5,850,000.00)	11,700,000.00	(11,700,000.00)	26,700,000.00	(26,700,000.00
Balance at End of Period....................................	1,209,860,360.29	10,234,273.35	1,209,860,360.29	10,234,273.35	1,209,860,360.29	10,234,273.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	10,234,273.35	10,234,273.35	10,234,273.35
Statutory Tax Rate..	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary....................	3,981,132.33	3,981,132.33	3,981,132.33

Combined Balance of Retained Earnings	12 MONTHS 5/31/2009	12 MONTHS 5/31/2008
Retained Earnings at Beginning of Period..................	1,098,082,553.04	941,601,660.31
Net Income..	122,012,080.60	156,473,204.73
FIN 48 Adjustment...	-	7,688.00
Retained Earnings at End of Period........................	1,220,094,633.64	1,098,082,553.04

June 19, 2009

Kentucky .s Company
Comparative Balance Sheets as of May 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,818,884,069.16	5,208,709,032.93
Less Reserves for Depreciation and Amortization	2,073,579,115.98	1,980,986,456.14
Total	3,745,304,953.18	3,227,722,576.79
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	178,821.21
Investments in Subsidiary Companies	11,530,073.35	19,678,772.80
Special Funds	-	6,079,541.57
Other	411,140.00	411,140.00
Total	12,370,334.29	26,598,275.58
Current and Accrued Assets		
Cash	3,136,824.43	2,197,797.71
Special Deposits	7,785,026.79	46,022.59
Temporary Cash Investments	269.25	17,715.50
Accounts Receivable-Less Reserve	167,753,581.62	145,706,243.24
Accounts Receivable from Associated Companies	6,374,661.86	6,356,238.83
Materials and Supplies-At Average Cost		
Fuel	97,405,666.69	56,160,099.44
Plant Materials and Operating Supplies	29,517,079.52	28,176,794.53
Stores Expense	6,511,819.79	6,498,163.59
Allowance Inventory	1,975,641.48	191,392.07
Prepayments	3,102,135.19	2,709,509.67
Miscellaneous Current and Accrued Assets	3,572,793.78	-
Total	327,135,500.40	248,059,977.17
Deferred Debits and Other		
Unamortized Debt Expense	4,949,606.27	6,576,279.58
Unamortized Loss on Bonds	13,331,919.49	10,831,379.56
Accumulated Deferred Income Taxes	50,599,415.33	50,537,997.37
Deferred Regulatory Assets	219,037,705.06	82,657,385.71
Other Deferred Debits	43,851,780.96	59,270,254.84
Total	331,770,427.11	209,873,297.06
Total Assets and Other Debits	4,416,581,214.98	3,712,254,126.60

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	290,711,597.00	115,000,000.00
Retained Earnings	1,209,860,360.29	1,079,699,580.24
Unappropriated Undistributed Subsidiary Earnings	10,234,273.35	18,382,972.80
Total Common Equity	1,818,624,919.33	1,520,901,241.73
Pollution Control Bonds	350,779,405.00	303,159,520.00
LT Notes Payable to Associated Companies	1,231,000,000.00	1,006,000,000.00
Total Long-term Debt	1,581,779,405.00	1,309,159,520.00
Total Capitalization	3,400,404,324.33	2,830,060,761.73
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	84,918,954.00	73,147,454.00
Accounts Payable	143,875,291.35	161,565,334.01
Accounts Payable to Associated Companies	8,449,306.70	10,284,864.53
Customer Deposits	21,716,440.33	19,919,069.31
Taxes Accrued	20,852,432.13	19,681,179.97
Interest Accrued	20,092,652.42	15,091,998.59
Miscellaneous Current and Accrued Liabilities	11,885,349.37	10,347,219.06
Total	311,790,426.30	310,037,119.47
Deferred Credits and Other		
Accumulated Deferred Income Taxes	330,328,894.30	330,043,757.30
Investment Tax Credit	85,256,583.31	58,068,150.32
Regulatory Liabilities	44,473,840.56	38,533,425.70
Customer Advances for Construction	2,434,674.02	2,379,947.16
Asset Retirement Obligations	33,429,411.25	31,125,405.65
Other Deferred Credits	28,937,039.53	21,882,903.78
Miscellaneous Long-term Liabilities	2,815,964.98	3,302,374.92
Accum Provision for Postretirement Benefits	176,710,056.40	86,820,280.57
Total	704,386,464.35	572,156,245.40
Total Liabilities and Other Credits	4,416,581,214.98	3,712,254,126.60

June 19, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
May 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total: Capital and ST Debt	Percent of Total: Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			290,711,597.00		
Retained Earnings			1,209,860,360.29		
Unappropriated Undistributed Subsidiary Earnings			10,234,273.35		
Total Common Equity			1,818,624,919.33	52.18	53.48
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.05	10.32
Long-term Notes Payable to Associated Companies			1,231,000,000.00	35.33	36.20
Total Capitalization			3,400,404,324.33	97.56	100.00
Short-term Notes Payable to Associated Companies			84,918,954.00	2.44	
Total Capitalization and Short-term Debt			3,485,323,278.33	100.00	

June 19, 2009

Kentucky Utilities Company
Summary Trial Balance
May 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,818,884,069.16	5,818,884,069.16
Reserves for Depreciation and Amortization		(2,073,579,115.98)
Depreciation	(2,060,825,403.52)	
Amortization of Plant	(12,753,712.46)	
Investments		12,370,334.29
Investments in Subsidiary Companies	11,530,073.35	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
Cash	3,136,824.43	3,136,824.43
Special Deposits		7,785,026.79
Restricted Cash	7,785,026.79	
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		167,753,581.62
Customers - Active	73,941,982.38	
Unbilled Revenues	65,559,806.34	
Income Tax Receivable - Federal	6,778,128.58	
OMU Reserve Funds	6,305,647.75	
Interest and Dividends Receivable	5,895,561.97	
IMPA	2,714,039.77	
IMEA	2,553,894.55	
Transmission Sales	269,094.84	
Wholesale Sales	209,791.60	
Damage Claims	103,669.64	
Employee Computer Loans	53,416.47	
Working Funds	32,367.13	
Electricity Swaps	4,088.49	
Other	4,336,960.44	
Utility Customers		
Charged Off	1,423,568.36	
Accrual	(1,004,818.27)	
Reserve	(995,831.00)	
Recoveries	(418,750.05)	
A/R Miscellaneous	(8,981.00)	
LEM Reserve	(56.37)	
Accounts Receivable from Associated Companies		6,374,661.86
E.ON US Services/Louisville Gas and Electric Company	6,374,661.86	

June 19, 2009

Kentucky Utilities Company
Summary Trial Balance
May 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		97,405,666.69
Coal 1,464,214.08 Tons @ $62.60 MMBtu 34,399,923.40 @ 266.44¢	91,654,067.31	
Fuel Oil 2,833,218.00 Gallons @ 200.39¢	5,677,622.63	
Gas Pipeline 11,836.80 Mcf @ $6.25	73,976.75	
Plant Materials and Operating Supplies		29,517,079.52
Regular Materials and Supplies	28,754,114.84	
Limestone 93,680.36 Tons @ $8.14	762,964.68	
Stores Expense Undistributed	6,511,819.79	6,511,819.79
Allowance Inventory	1,975,641.48	1,975,641.48
Prepayments		3,102,135.19
Insurance	1,936,334.53	
Taxes	149,395.94	
Vehicle License	85,591.35	
Risk Management and Workers Compensation	75,000.00	
Other	855,813.37	
Miscellaneous Current Assets		3,572,793.78
Derivative Asset - Non-Hedging	3,572,793.78	
Unamortized Debt Expense		4,949,606.27
Carroll County 2002 Series A due 02/01/32 Var%	92,946.34	
Carroll County 2002 Series B due 02/01/32 Var%	64,607.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	25,933.40	
Mercer County 2002 Series A due 02/01/32 Var%	71,922.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,712,423.18	
Carroll County 2006 Series B due 10/01/34 Var%	1,209,304.11	
Carroll County 2007 Series A due 02/01/26 5.75%	555,525.66	
Trimble County 2007 Series A due 03/01/37 6.00%	445,939.23	
Carroll County 2008 Series A due 02/01/32 Var%	771,004.62	
Unamortized Loss on Bonds	13,331,919.49	13,331,919.49
Accumulated Deferred Income Taxes		50,599,415.33
Federal	42,692,097.50	
State	7,907,317.83	
Regulatory Assets		219,037,705.06
Pension and Postretirement Benefits	126,832,090.11	
Environmental Cost Recovery	30,536,285.00	
Asset Retirement Obligations	28,858,358.02	
MISO Exit Fee	11,737,620.73	
SFAS 109 - Deferred Taxes	10,266,643.05	
FERC Jurisdictional Pension Expense	3,248,138.95	
VA Fuel Component	2,374,257.00	
2008 Wind Storm	2,195,516.35	
EKPC FERC Transmission Cost	1,589,811.00	
Rate Case Expenses	1,265,602.08	
KCCS Funding	693,433.77	
2003 Ice Storm Expenses	65,949.00	
Fuel Adjustment Clause	(626,000.00)	
Other Deferred Debits	43,851,780.96	43,851,780.96
Total Assets and Other Debits	4,416,581,214.98	4,416,581,214.98

June 19, 2009

Kentucky Utilities Company
Summary Trial Balance
May 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,818,624,919.33
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	290,711,597.00	
Retained Earnings	1,209,860,360.29	
Unappropriated Undistributed Subsidiary Earnings	10,234,273.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,231,000,000.00	1,231,000,000.00
Short-term Notes Payable to Associated Companies	84,918,954.00	84,918,954.00
Accounts Payable		143,875,291.35
Regular	139,786,778.27	
Tax Collections - Payable	2,885,177.94	
Salaries and Wages Accrued	1,350,683.50	
Employee Withholdings Payable	(147,348.36)	
Accounts Payable to Associated Companies		8,449,306.70
E.ON US Services/Louisville Gas and Electric Company	8,449,306.70	
Customers' Deposits	21,716,440.33	21,716,440.33
Taxes Accrued	20,852,432.13	20,852,432.13
Interest Accrued		20,092,652.42
Mercer County 2000 Series A due 05/01/23 Var%	5,262.98	
Carroll County 2002 Series A due 02/01/32 Var%	16,399.95	
Carroll County 2002 Series B due 02/01/32 Var%	1,880.53	
Muhlenburg County 2002 Series A due 02/01/32 Var%	1,880.53	
Mercer County 2002 Series A due 02/01/32 Var%	5,798.35	
Carroll County 2002 Series C due 10/01/32 Var%	22,901.29	
Carroll County 2004 Series A due 10/01/34 Var%	16,369.88	
Carroll County 2006 Series B due 10/01/34 Var%	28,109.60	
Carroll County 2007 Series A due 02/01/26 5.75%	513,906.25	
Trimble County 2007 Series A due 03/01/37 6.00%	267,810.00	
Carroll County 2008 Series A due 02/01/32 Var%	41,536.38	
Fidelia	18,657,241.53	
Customers' Deposits	434,745.85	
Other	78,809.30	

June 19, 2009

Kentucky Utilities Company
Summary Trial Balance
May 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		11,885,349.37
Vacation Pay Accrued	5,778,248.52	
Franchise Fee Payable	2,746,829.49	
Customer Overpayments	2,292,961.89	
Derivative Liabilities - Non-Hedging	675,080.97	
Other	392,228.50	
Accumulated Deferred Income Taxes		330,328,894.30
Federal	286,151,974.75	
State	44,176,919.55	
Investment Tax Credit		85,256,583.31
Advance Coal Credit	85,187,658.74	
Job Development Credit	68,924.57	
Regulatory Liabilities		44,473,840.56
Deferred Taxes	25,231,035.45	
DSM Cost Recovery	10,116,115.66	
Asset Retirement Obligations	4,002,760.71	
MISO Schedule 10 Charges	3,605,213.29	
Spare Parts	1,518,715.45	
Customers' Advances for Construction		2,434,674.02
Line Extensions	1,591,791.22	
Customer Advances	155,800.00	
Outdoor Lighting Deposits	3,795.90	
Other	683,286.90	
Asset Retirement Obligations	33,429,411.25	33,429,411.25
Other Deferred Credits	28,937,039.53	28,937,039.53
Miscellaneous Long-term Liabilities		2,815,964.98
Workers' Compensation	2,600,397.58	
Long-Term Derivative Liabilities-SFAS 133	215,567.40	
Accumulated Provision for Benefits		176,710,056.40
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	66,032,103.54	
Post Employment Benefits Payable	5,743,518.00	
Medicare Subsidy - SFAS 106	(5,072,762.14)	
Post Employment Medicare Subsidy	(242,747.00)	
Total Liabilities and Other Credits	4,416,581,214.98	4,416,581,214.98

June 19, 2009

Kentucky Utilities Company
Statement of Cash Flows
May 31, 2009

	Year to Date 2009	Year to Date 2008
Cash Flows from Operating Activities		
Net income	25,132,016.87	60,385,503.03
Items not requiring (providing) cash currently:		
Depreciation	52,764,986.01	49,907,561.27
Amortization	2,171,548.56	2,045,923.21
Deferred income taxes - net	3,932,242.44	(3,037,505.23)
Investment tax credit - net	5,354,113.77	3,069,038.00
Other	10,856,049.06	2,844,966.82
Change in receivables	3,083,869.42	36,687,825.67
Change in inventory	(24,962,533.16)	(15,239,595.71)
Change in allowance inventory	(1,901,222.20)	191,502.04
Change in payables and accrued expenses	(38,742,705.16)	10,576,132.78
Change in regulatory assets	(30,007,286.34)	(492,135.09)
Change in regulatory liabilities	3,990,557.96	812,389.62
Change in other deferred debits	32,675,071.02	7,745,346.76
Change in other deferred credits	7,227,960.21	8,446,760.18
Other	(36,536,597.31)	(4,511,667.58)
Less: Allowance for other funds used during construction	(3,171,773.72)	(3,321,075.42)
Less: Undistributed earnings of subsidiary company	10,521,313.45	2,824,095.20
Net cash provided (used) by operating activities	22,387,610.88	158,935,065.55
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(199,175,312.46)	(291,619,068.73)
Less: Allowance for other funds used during construction	3,171,773.72	3,321,075.42
Gain (Loss) on disposal of property	-	1,474.79
Change in non-hedging derivatives	(1,463,977.00)	385,022.61
Change in other special funds	5,997,831.35	(163,657.50)
Change in restricted cash	1,724,981.87	10,939,533.19
Net cash provided (used) by investing activities	(189,744,702.52)	(277,135,620.22)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	49,409,326.66	74,743,177.18
Net change in short-term debt	68,671,500.00	49,928,000.00
Payments for reacquisition of long-term debt	-	(29,593,620.00)
Contributed capital	50,000,000.00	25,000,000.00
Net cash provided (used) by financing activities	168,080,826.66	120,077,557.18
Net Increase (Decrease) in Cash and Cash Equivalents	723,735.02	1,877,002.51
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,137,093.68	2,215,513.21

June 19, 2009

Kentucky . .es Company
Analysis of Interest Charges
May 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%.............	5,262.49	28,020.49	32,242.92	317,061.11	10,319.89	317,061.11
Carroll County 2002 Series A due 02/01/32 Var%.............	19,553.78	29,250.53	98,823.47	175,640.92	307,334.91	568,086.90
Carroll County 2002 Series B due 02/01/32 Var%.............	2,242.19	3,354.10	11,331.88	20,140.38	35,241.47	65,141.33
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,242.19	3,354.10	11,331.88	20,140.38	35,241.47	65,141.33
Mercer County 2002 Series A due 02/01/32 Var%.............	6,913.42	10,341.81	34,939.98	62,099.52	108,661.19	200,852.51
Carroll County 2002 Series C due 10/01/32 Var%.............	43,605.33	346,197.33	250,285.32	1,692,031.99	2,120,589.32	4,028,506.66
Carroll County 2004 Series A due 10/01/34 Var%.............	16,369.86	262,673.61	125,273.97	1,159,618.05	516,018.52	2,340,173.61
Carroll County 2005 Series A due 06/01/35 Var%.............	-	39,493.13	-	223,526.00	220,327.65	530,670.63
Carroll County 2005 Series B due 06/01/35 Var%.............	-	39,493.13	-	222,220.68	220,675.91	521,561.75
Carroll County 2006 Series A due 06/01/36 Var%.............	-	56,370.65	-	321,908.18	510,053.16	718,451.22
Carroll County 2006 Series C due 06/01/36 Var%...............	-	31,558.24	-	383,511.98	(45,171.97)	779,758.24
Carroll County 2006 Series B due 10/01/34 Var%............	28,109.59	178,023.00	167,059.73	983,515.50	2,068,707.92	2,240,605.50
Carroll County 2007 Series A due 02/01/26 5.75%...........	85,651.04	88,506.08	428,255.21	386,129.78	1,027,812.52	816,237.04
Trimble County 2007 Series A due 03/01/37 6.00%.............	44,635.00	46,122.83	223,175.00	196,495.67	535,620.03	411,217.29
Carroll County 2008 Series A due 02/01/32 Var%............	41,536.36	-	239,714.97	-	565,134.72	-
Fidelia..	5,710,887.51	4,327,762.51	27,718,437.57	21,102,562.55	62,168,257.72	44,010,237.45
Hardin Promissory Note..	-	-	-	-	-	307,503.75
Total...	6,007,008.76	5,490,521.54	29,340,871.90	27,266,602.69	70,404,824.43	57,921,206.32
Amortization of Debt Expense - Net						
Amortization of Debt Expense..	17,943.88	21,901.48	86,883.20	117,168.20	220,026.28	291,334.94
Amortization of Loss on Reacquired Debt........................	50,358.64	39,550.37	249,767.53	186,793.59	556,233.18	441,439.59
Total...	68,302.52	61,451.85	336,650.73	303,961.79	776,259.46	732,774.53
Other Interest Charges						
Customers' Deposits..	102,281.25	96,731.98	503,804.13	492,998.18	1,163,011.41	1,120,474.79
Other Tax Deficiencies..	-	16,537.70	-	16,537.70	2,880.00	13,113.70
Interest on DSM Cost Recovery..................................	3,411.18	-	24,105.73	-	59,391.60	-
Interest on Debt to Associated Companies........................	18,543.08	194,242.41	72,757.40	625,465.94	1,754,548.02	4,899,682.83
AFUDC Borrowed Funds..	(83,298.69)	(197,294.31)	(748,451.36)	(844,500.30)	(1,952,419.47)	(1,500,017.01)
Other Interest Expense..	135,375.86	-	752,780.97	8.16	1,863,772.56	12.75
Total...	176,312.68	110,217.78	604,996.87	290,509.68	2,891,184.12	4,533,267.06
Total Interest..	6,251,623.96	5,662,191.17	30,282,519.50	27,861,074.16	74,072,268.01	63,187,247.91

June 19, 2009

Kentucky U[illegible]ies Company
Analysis of Taxes Charged and Accrued
May 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,025,101.01	5,911,212.80	5,125,505.05
Unemployment	7,144.85	10,752.29	117,661.26	97,575.28
FICA	547,151.54	890,665.21	2,920,069.46	2,676,492.20
Public Service Commission Fee	149,395.89	149,209.73	746,979.45	746,048.65
Federal Income	4,830,406.80	3,888,005.50	1,577,697.08	25,238,387.89
State Income	880,925.25	1,137,542.44	1,467,596.83	4,849,433.94
Miscellaneous	4,073.65	2,558.58	36,688.38	30,619.13
Total Charged to Operating Expense	7,723,388.14	7,103,834.76	12,777,905.26	38,764,062.14
Taxes Charged to Other Accounts	(97,600.10)	1,363,984.93	10,286,951.88	7,526,500.55
Taxes Accrued on Intercompany Accounts	(222,185.35)	(193,369.10)	(1,107,748.80)	(917,345.06)
Total Taxes Charged	7,403,602.69	8,274,450.59	21,957,108.34	45,373,217.63

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	6,159,822.00	6,791,127.95	6,160,709.29
Unemployment	48,319.14	84,178.36	132,222.62	274.88
FICA	553,448.29	2,547,083.82	2,860,186.68	240,345.43
Federal Income	546,249.77	9,503,160.52	469,253.85	9,580,156.44
State Income	10,477.99	1,988,774.26	(2,414,382.00)	4,413,634.25
Kentucky Sales and Use Tax	577,873.18	1,576,396.59	1,720,555.93	433,713.84
Miscellaneous	30,176.34	97,692.79	104,271.13	23,598.00
Totals	8,558,559.95	21,957,108.34	9,663,236.16	20,852,432.13

June 19, 2009

Kentuck; ..s Company
Summary of Utility Plant
May 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	7,329,945.93	(235,850.07)	4,959.77	7,099,055.63	1,116,541,300.54
Electric General Plant	106,382,748.13	4,936,013.72	(5,417,670.19)	-	(481,656.47)	105,901,091.66
Electric Hydro Production	11,831,164.24	11,732.37	-	278,123.83	289,856.20	12,121,020.44
Electric Intangible Plant	26,829,943.42	38,230,735.42	(11,470,084.09)	-	26,760,651.33	53,590,594.75
Electric Other Production	503,050,995.17	1,900,759.69	(1,476,214.36)	12,329,547.37	12,754,092.70	515,805,087.87
Electric Steam Production	1,715,546,561.48	14,646,193.43	(2,243,939.00)	13,895,917.08	26,298,171.51	1,741,844,732.99
Electric Transmission	525,624,959.67	8,121,347.15	(2,218,571.75)	(26,508,548.05)	(20,605,772.65)	505,019,187.02
Total 101 Accounts	3,998,708,617.02	75,176,727.71	(23,062,329.46)	-	52,114,398.25	4,050,823,015.27
105 Plant Held for Future Use						
Electric						
Electric Steam	10,137,561.95				-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	11,809,169.39	-	-	11,809,169.39	133,708,485.12
Electric General Plant	2,677,508.16	(1,128,613.75)	-	-	(1,128,613.75)	1,548,894.41
Electric Hydro Production	11,732.37	117,651.09	-	-	117,651.09	129,383.46
Electric Intangible Plant	1,058,583.09	(28,203.71)	-	-	(28,203.71)	1,030,379.38
Electric Other Production	210,168.91	140,742.75	-	-	140,742.75	350,911.66
Electric Steam Production	307,830,864.65	172,299,518.67	-	-	172,299,518.67	480,130,383.32
Electric Transmission	3,483,426.89	6,408,959.46	-	-	6,408,959.46	9,892,386.35
Total 106 Accounts	437,171,599.80	189,619,223.90	-	-	189,619,223.90	626,790,823.70
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	(45,307,503.53)	-	-	(45,307,503.53)	1,131,132,668.24
Total 107001	1,176,440,171.77	(45,307,503.53)	-	-	(45,307,503.53)	1,131,132,668.24
Total Plant (Non-CWIP)	4,446,196,899.71	264,795,951.61	(23,062,329.46)	-	241,733,622.15	4,687,930,521.86
Total Plant + CWIP	5,622,637,071.48	219,488,448.08	(23,062,329.46)	-	196,426,118.62	5,819,063,190.10
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	219,488,448.08	(23,062,329.46)	-	196,426,118.62	5,818,884,069.16

June 19, 2009

Kentuck Company
Summary of Utility Plant - Rese, ve for Depreciation of Utility Plant
May 31, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(10,540,674.47)	235,850.07	(37.05)	-	-	-	-	(397,390,076.30)
Electric Distribution - ARO	(6,386.40)	(76.10)	-	-	-	-	-	-	(6,462.50)
Electric General Plant	(54,006,194.03)	(2,068,268.47)	5,417,670.19	-	-	-	-	-	(50,656,792.31)
Electric Hydro Production	(7,591,558.65)	(41,328.18)	-	(91,028.80)	-	-	-	-	(7,723,915.63)
Electric Hydro Production - ARO	(1,811.92)	(21.60)	-	-	-	-	-	-	(1,833.52)
Electric Other Production	(130,098,501.03)	(6,858,828.41)	1,476,214.36	(1,887,563.75)	-	-	-	-	(137,368,678.83)
Electric Other Production - ARO	(32,068.56)	(1,017.85)	-	-	-	-	-	-	(33,086.41)
Electric Steam Production	(904,811,374.27)	(22,226,554.29)	2,243,939.00	(5,374,522.03)	-	-	-	-	(930,168,511.59)
Electric Steam Production - ARO	(4,615,135.75)	(122,576.27)	-	(2,024.05)	-	-	-	-	(4,739,736.07)
Electric Transmission	(208,518,367.58)	(3,286,048.87)	2,218,571.75	7,353,151.63	-	-	-	(163,983.00)	(202,396,676.07)
Electric Transmission - ARO	(4,580.08)	(48.43)	-	2,024.05	-	-	-	-	(2,604.46)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(45,145,442.94)	11,592,245.37	-	-	-	-	(163,983.00)	(1,730,488,373.69)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(3,618,940.20)	-	(44.08)	-	522,017.85	-	-	(202,969,281.77)
Electric General Plant	152,325.56	(13,036.18)	-	-	-	40,692.60	-	-	179,981.98
Electric Hydro Production	(669,680.63)	(4,584.22)	-	(16,118.61)	-	-	-	-	(690,383.46)
Electric Other Production	(1,644,839.43)	(292,967.05)	-	(95,060.99)	-	143,491.47	-	-	(1,889,376.00)
Electric Steam Production	(85,505,341.30)	(4,855,092.92)	-	(31,815.78)	-	570,355.72	-	-	(89,821,894.28)
Electric Transmission	(140,724,513.55)	(1,357,965.85)	-	143,039.46	-	2,026,609.57	-	-	(139,912,830.37)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(10,142,586.42)	-	-	-	3,303,167.21	-	-	(435,103,783.90)
Salvage									
Electric Distribution	45,600,359.15	838,910.43	-	-	-	-	(3,753.18)	-	46,435,516.40
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	1,115,883.49	-	-	-	-	-	-	15,638,529.91
Electric Transmission	22,387,639.10	272,320.80	-	-	-	-	(400,908.60)	-	22,259,051.30
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	2,229,460.33	-	-	-	-	(404,661.78)	-	85,148,525.11
Total Reserves									
Electric Distribution	(541,357,171.04)	(13,320,704.24)	235,850.07	(81.13)	-	522,017.85	(3,753.18)	-	(553,923,841.67)
Electric Distribution - ARO	(6,386.40)	(76.10)	-	-	-	-	-	-	(6,462.50)
Electric General Plant	(53,705,999.58)	(2,079,156.34)	5,417,670.19	-	-	40,692.60	-	-	(50,326,793.13)
Electric Hydro Production	(8,214,917.89)	(45,715.10)	-	(107,147.41)	-	-	-	-	(8,367,780.40)
Electric Hydro Production - ARO	(1,811.92)	(21.60)	-	-	-	-	-	-	(1,833.52)
Electric Other Production	(131,124,448.85)	(7,151,795.46)	1,476,214.36	(1,982,624.74)	-	143,491.47	-	-	(138,639,163.22)
Electric Other Production - ARO	(32,068.56)	(1,017.85)	-	-	-	-	-	-	(33,086.41)
Electric Steam Production	(975,794,069.15)	(25,965,763.72)	2,243,939.00	(5,406,337.81)	-	570,355.72	-	-	(1,004,351,875.96)
Electric Steam Production - ARO	(4,615,135.75)	(122,576.27)	-	(2,024.05)	-	-	-	-	(4,739,736.07)
Electric Transmission	(326,855,242.03)	(4,371,693.92)	2,218,571.75	7,496,191.09	-	2,026,609.57	(400,908.60)	(163,983.00)	(320,050,455.14)
Electric Transmission - ARO	(4,580.08)	(48.43)	-	2,024.05	-	-	-	-	(2,604.46)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(53,058,569.03)	11,592,245.37	-	-	3,303,167.21	(404,661.78)	(163,983.00)	(2,080,443,632.48)
Retirement Work in Process									
Electric	11,271,917.81	-	-	-	(2,734,522.43)	11,352,707.98	(288,131.94)	16,257.54	19,618,228.96
	11,271,917.81	-	-	-	(2,734,522.43)	11,352,707.98	(288,131.94)	16,257.54	19,618,228.96
YTD Activity	(2,030,439,913.44)	(53,058,569.03)	11,592,245.37	-	(2,734,522.43)	14,655,875.19	(692,793.72)	(147,725.46)	(2,060,825,403.52)
Amortization									
Electric	(22,052,247.99)	(2,171,548.56)	11,470,084.09	-	-	-	-	-	(12,753,712.46)
	(22,052,247.99)	(2,171,548.56)	11,470,084.09	-	-	-	-	-	(12,753,712.46)
Depreciation & Amortization Total	(2,052,492,161.43)	(55,230,117.59)	23,062,329.46	-	(2,734,522.43)	14,655,875.19	(692,793.72)	(147,725.46)	(2,073,579,115.98)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,745,304,953.18

June 19, 2009

KU Monthly Report to KPSC – April 30, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

April 30, 2009

Prepared by Regulatory Accounting and Reporting

Index
Financial and Operating Reports

Kentucky Utilities Company
April 30, 2009

Kentucky U   .es Company
Comparative Statement of Income
April 30, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	102,853,016.39	95,384,511.93	7,468,504.46	7.83
Total Operating Revenues	102,853,016.39	95,384,511.93	7,468,504.46	7.83
Fuel for Electric Generation	27,771,256.76	32,030,637.41	(4,259,380.65)	(13.30)
Power Purchased	16,677,942.77	16,365,637.14	312,305.63	1.91
Other Operation Expenses	14,546,134.56	14,326,599.92	219,534.64	1.53
Maintenance	9,060,122.70	7,196,827.88	1,863,294.82	25.89
Depreciation	10,361,641.07	9,910,173.72	451,467.35	4.56
Amortization Expense	441,306.93	429,130.97	12,175.96	2.84
Regulatory Credits	(198,312.01)	(189,735.86)	(8,576.15)	(4.52)
Taxes				
Federal Income	6,116,985.07	2,772,938.57	3,344,046.50	120.60
State Income	1,115,559.59	533,257.42	582,302.17	109.20
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	2,069,113.47	1,655,098.36	414,015.11	25.01
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	(57.45)	57.45	100.00
Accretion Expense	173,563.02	165,157.94	8,405.08	5.09
Total Operating Expenses	88,135,313.93	85,195,666.02	2,939,647.91	3.45
Net Operating Income	14,717,702.46	10,188,845.91	4,528,856.55	44.45
Other Income Less Deductions				
Other Income Less Deductions	117,128.49	1,365,346.68	(1,248,218.19)	(91.42)
AFUDC - Equity	540,799.74	523,557.44	17,242.30	3.29
Total Other Income Less Deductions	657,928.23	1,888,904.12	(1,230,975.89)	(65.17)
Income Before Interest Charges	15,375,630.69	12,077,750.03	3,297,880.66	27.31
Interest on Long-term Debt	5,855,815.54	5,415,349.75	440,465.79	8.13
Amortization of Debt Expense - Net	67,639.57	61,198.58	6,440.99	10.52
Other Interest Expenses	265,717.07	203,600.28	62,116.79	30.51
AFUDC - Borrowed Funds	(161,959.30)	(177,316.44)	15,357.14	8.66
Total Interest Charges	6,027,212.88	5,502,832.17	524,380.71	9.53
Net Income	9,348,417.81	6,574,917.86	2,773,499.95	42.18

May 22, 2009

Kentucky [illegible] Company
Comparative Statement of Income
April 30, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	464,299,204.43	447,581,158.54	16,718,045.89	3.74
Total Operating Revenues	464,299,204.43	447,581,158.54	16,718,045.89	3.74
Fuel for Electric Generation	142,918,502.95	155,165,464.67	(12,246,961.72)	(7.89)
Power Purchased	80,574,232.18	72,430,282.49	8,143,949.69	11.24
Other Operation Expenses	63,634,761.13	55,159,200.80	8,475,560.33	15.37
Maintenance	86,424,500.03	28,532,871.93	57,891,628.10	202.89
Depreciation	42,311,119.13	40,247,588.11	2,063,531.02	5.13
Amortization Expense	1,569,054.72	1,616,065.86	(47,011.14)	(2.91)
Regulatory Credits	(787,817.08)	(758,943.44)	(28,873.64)	(3.80)
Taxes				
Federal Income	(3,252,709.72)	21,350,382.39	(24,603,092.11)	(115.23)
State Income	586,671.58	3,711,891.50	(3,125,219.92)	(84.19)
Deferred Federal Income - Net	3,879,162.60	(3,478,563.50)	7,357,726.10	211.52
Deferred State Income - Net	53,079.84	(438,703.98)	491,783.82	112.10
Property and Other	7,720,555.26	6,597,953.49	1,122,601.77	17.01
Investment Tax Credit	5,354,113.77	3,200,000.00	2,154,113.77	67.32
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	688,825.77	660,631.76	28,194.01	4.27
Total Operating Expenses	431,589,344.40	383,413,015.53	48,176,328.87	12.57
Net Operating Income	32,709,860.03	64,168,143.01	(31,458,282.98)	(49.02)
Other Income Less Deductions				
Other Income Less Deductions	5,784,307.83	8,637,933.27	(2,853,625.44)	(33.04)
AFUDC - Equity	2,222,071.29	1,892,477.83	329,593.46	17.42
Total Other Income Less Deductions	8,006,379.12	10,530,411.10	(2,524,031.98)	(23.97)
Income Before Interest Charges	40,716,239.15	74,698,554.11	(33,982,314.96)	(45.49)
Interest on Long-term Debt	23,333,863.14	21,776,081.15	1,557,781.99	7.15
Amortization of Debt Expense - Net	268,348.21	242,509.94	25,838.27	10.65
Other Interest Expenses	1,093,836.86	827,497.89	266,338.97	32.19
AFUDC - Borrowed Funds	(665,152.67)	(647,205.99)	(17,946.68)	(2.77)
Total Interest Charges	24,030,895.54	22,198,882.99	1,832,012.55	8.25
Net Income	16,685,343.61	52,499,671.12	(35,814,327.51)	(68.22)

May 22, 2009

Kentucky ᴌ ₋s Company
Comparative Statement of Income
April 30, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,420,760,099.14	1,306,033,926.31	114,726,172.83	8.78
Total Operating Revenues	1,420,760,099.14	1,306,033,926.31	114,726,172.83	8.78
Fuel for Electric Generation	500,152,509.02	472,287,284.30	27,865,224.72	5.90
Power Purchased	229,320,717.99	181,129,785.86	48,190,932.13	26.61
Other Operation Expenses	175,387,787.97	159,464,403.04	15,923,384.93	9.99
Maintenance	146,670,420.58	90,466,641.60	56,203,778.98	62.13
Depreciation	133,178,540.11	119,163,163.72	14,015,376.39	11.76
Amortization Expense	5,182,644.71	5,193,055.16	(10,410.45)	(0.20)
Regulatory Credits	(2,305,422.35)	(2,196,419.97)	(109,002.38)	(4.96)
Taxes				
Federal Income	18,581,536.70	31,655,467.72	(13,073,931.02)	(41.30)
State Income	6,928,514.01	11,712,922.70	(4,784,408.69)	(40.85)
Deferred Federal Income - Net	(2,835,781.92)	(7,366,632.74)	4,530,850.82	61.51
Deferred State Income - Net	(2,667,085.04)	(651,073.62)	(2,016,011.42)	(309.64)
Property and Other	21,783,696.09	18,993,834.68	2,789,861.41	14.69
Investment Tax Credit	27,421,011.74	35,891,647.00	(8,470,635.26)	(23.60)
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,106.55)	498,398.79	85.47
Accretion Expense	2,009,769.37	1,901,344.24	108,425.13	5.70
Total Operating Expenses	1,258,724,151.22	1,117,062,317.14	141,661,834.08	12.68
Net Operating Income	162,035,947.92	188,971,609.17	(26,935,661.25)	(14.25)
Other Income Less Deductions				
Other Income Less Deductions	26,527,564.53	29,982,164.13	(3,454,599.60)	(11.52)
AFUDC - Equity	6,370,562.02	4,440,279.36	1,930,282.66	43.47
Total Other Income Less Deductions	32,898,126.55	34,422,443.49	(1,524,316.94)	(4.43)
Income Before Interest Charges	194,934,074.47	223,394,052.66	(28,459,978.19)	(12.74)
Interest on Long-term Debt	69,888,337.21	56,189,348.34	13,698,988.87	24.38
Amortization of Debt Expense - Net	769,408.79	739,208.56	30,200.23	4.09
Other Interest Expenses	4,891,504.31	6,892,097.73	(2,000,593.42)	(29.03)
AFUDC - Borrowed Funds	(2,066,415.09)	(1,379,940.85)	(686,474.24)	(49.75)
Total Interest Charges	73,482,835.22	62,440,713.78	11,042,121.44	17.68
Net Income	121,451,239.25	160,953,338.88	(39,502,099.63)	(24.54)

May 22, 2009

Kentucky U. ..es Company
Analysis of Retained Earnings
April 30, 2009

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance at Beginning of Period..............................	1,185,400,699.22	16,898,843.35	1,174,207,029.97	20,755,586.80	1,066,612,042.33	23,584,678.80
Add:						
Net Income for Period....................................	9,348,417.81		16,685,343.61		121,451,239.25	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..	511,663.00	(511,663.00)	(1,481,593.55)	1,481,593.55	(21,152,501.55)	21,152,501.55
Dividends Received Current Year -EE Inc..	-	-	5,850,000.00	(5,850,000.00)	28,350,000.00	(28,350,000.00)
Balance at End of Period....................................	1,195,260,780.03	16,387,180.35	1,195,260,780.03	16,387,180.35	1,195,260,780.03	16,387,180.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	16,387,180.35	16,387,180.35	16,387,180.35
Statutory Tax Rate..	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary....................	6,374,613.16	6,374,613.16	6,374,613.16

Combined Balance of Retained Earnings	12 MONTHS 4/30/2009	12 MONTHS 4/30/2008
Retained Earnings at Beginning of Period....................	1,090,196,721.13	929,235,694.25
Net Income..	121,451,239.25	160,953,338.88
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period..........................	1,211,647,960.38	1,090,196,721.13

May 22, 2009

Kentucky ... Company
Comparative Balance Sheets as of April 30, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,790,316,188.51	5,151,234,451.43
Less Reserves for Depreciation and Amortization	2,065,055,554.79	1,972,362,644.75
Total	3,725,260,633.72	3,178,871,806.68
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	17,682,980.35	24,880,478.80
Special Funds	6,243,862.45	6,046,655.99
Other	411,140.00	411,140.00
Total	24,767,103.74	31,767,395.73
Current and Accrued Assets		
Cash	1,503,837.06	2,125,603.26
Special Deposits	7,778,755.51	4,334,948.68
Temporary Cash Investments	269.25	17,681.67
Accounts Receivable-Less Reserve	166,718,343.79	142,596,743.77
Accounts Receivable from Associated Companies	1,032,772.64	49,694.17
Materials and Supplies-At Average Cost		
Fuel	93,255,635.46	46,647,686.54
Plant Materials and Operating Supplies	29,432,158.80	28,045,637.93
Stores Expense	6,375,965.49	6,524,614.19
Allowance Inventory	74,345.52	223,085.27
Prepayments	3,877,256.18	3,405,611.11
Miscellaneous Current and Accrued Assets	5,212,732.54	-
Total	315,262,072.24	233,971,306.59
Deferred Debits and Other		
Unamortized Debt Expense	4,866,594.25	6,790,525.03
Unamortized Loss on Bonds	13,311,042.25	10,611,577.64
Accumulated Deferred Income Taxes	50,599,415.33	50,537,997.37
Deferred Regulatory Assets	222,871,023.88	82,545,197.75
Other Deferred Debits	44,190,210.22	58,995,218.47
Total	335,838,285.93	209,480,516.26
Total Assets and Other Debits	4,401,128,095.63	3,654,091,025.26

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	290,711,597.00	115,000,000.00
Retained Earnings	1,195,260,780.03	1,066,612,042.33
Unappropriated Undistributed Subsidiary Earnings	16,387,180.35	23,584,678.80
Total Common Equity	1,810,178,246.07	1,513,015,409.82
Pollution Control Bonds	350,779,405.00	316,059,520.00
LT Notes Payable to Associated Companies	1,231,000,000.00	931,000,000.00
Total Long-term Debt	1,581,779,405.00	1,247,059,520.00
Total Capitalization	3,391,957,651.07	2,760,074,929.82
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	57,849,954.00	93,302,454.00
Accounts Payable	166,310,573.33	134,916,555.69
Accounts Payable to Associated Companies	16,586,190.04	36,181,072.10
Customer Deposits	21,390,155.51	19,792,751.88
Taxes Accrued	14,477,247.67	12,576,638.88
Interest Accrued	17,138,337.40	11,397,765.18
Miscellaneous Current and Accrued Liabilities	15,445,234.57	13,363,943.14
Total	309,197,692.52	321,531,180.87
Deferred Credits and Other		
Accumulated Deferred Income Taxes	330,328,894.30	331,434,967.30
Investment Tax Credit	85,266,430.31	58,094,343.32
Regulatory Liabilities	44,068,952.18	38,152,787.49
Customer Advances for Construction	2,448,529.70	2,420,052.26
Asset Retirement Obligations	33,254,935.91	30,975,691.02
Other Deferred Credits	25,261,530.33	21,296,038.92
Miscellaneous Long-term Liabilities	2,633,401.17	3,256,903.03
Accum Provision for Postretirement Benefits	176,710,078.14	86,854,131.23
Total	699,972,752.04	572,484,914.57
Total Liabilities and Other Credits	4,401,128,095.63	3,654,091,025.26

May 22, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
April 30, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			290,711,597.00		
Retained Earnings			1,195,260,780.03		
Unappropriated Undistributed Subsidiary Earnings			16,387,180.35		
Total Common Equity			1,810,178,246.07	52.47	53.37
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 5.75%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 6.00%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.16	10.34
Long-term Notes Payable to Associated Companies			1,231,000,000.00	35.69	36.29
Total Capitalization			3,391,957,651.07	98.32	100.00
Short-term Notes Payable to Associated Companies			57,849,954.00	1.68	
Total Capitalization and Short-term Debt			3,449,807,605.07	100.00	

May 22, 2009

Kentucky Utilities Company
Summary Trial Balance
April 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,790,316,188.51	5,790,316,188.51
Reserves for Depreciation and Amortization		(2,065,055,554.79)
Depreciation	(2,052,904,336.17)	
Amortization of Plant	(12,151,218.62)	
Investments		24,767,103.74
Investments in Subsidiary Companies	17,682,980.35	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,442,964.66	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
OMU - Revenue and Investments Interest on Purchase Power	412,833.16	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	1,503,837.06	1,503,837.06
Special Deposits		7,778,755.51
Restricted Cash	7,778,755.51	
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		166,718,343.79
Customers - Active	84,369,132.28	
Unbilled Revenues	59,040,231.62	
Income Tax Receivable - Federal	6,778,128.58	
Wholesale Sales	4,528,325.12	
IMPA	4,212,036.64	
IMEA	3,963,500.34	
Transmission Sales	528,542.00	
Damage Claims	92,407.69	
Employee Computer Loans	51,791.92	
Interest and Dividends Receivable	44,080.69	
Working Funds	32,367.13	
Other	5,912,820.08	
Reserves for Uncollectible Accounts		
Utility Customers		
Charged Off	1,180,034.13	
LEM Reserve	(1,899,079.22)	
Reserve	(1,115,814.00)	
Accrual	(650,667.20)	
Recoveries	(340,513.01)	
A/R Miscellaneous	(8,981.00)	
Accounts Receivable from Associated Companies		1,032,772.64
E.ON US Services/Louisville Gas and Electric Company	1,032,772.64	

May 22, 2009

Kentucky Utilities Company
Summary Trial Balance
April 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		93,255,635.46
Coal 1,393,628.94 Tons @ $62.73 MMBtu 32,786,267.52 @ 266.63¢	87,418,160.83	
Fuel Oil 2,905,104.00 Gallons @ 199.76¢	5,803,180.02	
Gas Pipeline 9,178.10 Mcf @ $3.74	34,294.61	
Plant Materials and Operating Supplies		29,432,158.80
Regular Materials and Supplies	28,653,997.99	
Limestone 94,144.36 Tons @ $8.27	778,160.81	
Stores Expense Undistributed	6,375,965.49	6,375,965.49
Allowance Inventory	74,345.52	74,345.52
Prepayments		3,877,256.18
Insurance	2,288,414.17	
Taxes	298,791.83	
Vehicle License	89,320.21	
Risk Management and Workers Compensation	75,000.00	
Other	1,125,729.97	
Miscellaneous Current Assets		5,212,732.54
Derivative Asset - Non-Hedging	5,128,024.78	
Miscellaneous Current Assets	84,707.76	
Unamortized Debt Expense		4,866,594.25
Carroll County 2002 Series A due 02/01/32 Var%	93,288.34	
Carroll County 2002 Series B due 02/01/32 Var%	64,845.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	26,028.40	
Mercer County 2002 Series A due 02/01/32 Var%	72,187.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,717,755.98	
Carroll County 2006 Series B due 10/01/34 Var%	1,173,376.09	
Carroll County 2007 Series A due 02/01/26 5.75%	558,289.47	
Trimble County 2007 Series A due 03/01/37 6.00%	432,274.38	
Carroll County 2008 Series A due 02/01/32 Var%	728,548.86	
Unamortized Loss on Bonds	13,311,042.25	13,311,042.25
Accumulated Deferred Income Taxes		50,599,415.33
Federal	42,692,097.50	
State	7,907,317.83	
Regulatory Assets		222,871,023.88
Pension and Postretirement Benefits	126,832,090.11	
Asset Retirement Obligations	28,659,133.74	
Environmental Cost Recovery	28,381,266.00	
MISO Exit Fee	11,943,543.90	
SFAS 109 - Deferred Taxes	10,266,643.05	
Fuel Adjustment Clause	5,138,000.00	
FERC Jurisdictional Pension Expense	3,157,790.55	
VA Fuel Component	2,374,257.00	
2008 Wind Storm	2,195,516.35	
EKPC FERC Transmission Cost	1,617,702.42	
Rate Case Expenses	1,305,730.99	
KCCS Funding	693,433.77	
2003 Ice Storm Expenses	131,916.00	
Other	174,000.00	
Other Deferred Debits	44,190,210.22	44,190,210.22
Total Assets and Other Debits	4,401,128,095.63	4,401,128,095.63

May 22, 2009

Kentucky Utilities Company
Summary Trial Balance
April 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,810,178,246.07
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	290,711,597.00	
Retained Earnings	1,195,260,780.03	
Unappropriated Undistributed Subsidiary Earnings	16,387,180.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,231,000,000.00	1,231,000,000.00
Short-term Notes Payable to Associated Companies	57,849,954.00	57,849,954.00
Accounts Payable		166,310,573.33
Regular	159,288,900.92	
Salaries and Wages Accrued	3,646,597.88	
Tax Collections - Payable	3,504,020.42	
Employee Withholdings Payable	(128,945.89)	
Accounts Payable to Associated Companies		16,586,190.04
E.ON US Services/Louisville Gas and Electric Company	16,586,190.04	
Customers' Deposits	21,390,155.51	21,390,155.51
Taxes Accrued	14,477,247.67	14,477,247.67
Interest Accrued		17,138,337.40
Mercer County 2000 Series A due 05/01/23 Var%	6,128.87	
Carroll County 2002 Series A due 02/01/32 Var%	49,199.84	
Carroll County 2002 Series B due 02/01/32 Var%	5,641.63	
Muhlenburg County 2002 Series A due 02/01/32 Var%	5,641.63	
Mercer County 2002 Series A due 02/01/32 Var%	17,395.07	
Carroll County 2002 Series C due 10/01/32 Var%	39,682.63	
Carroll County 2004 Series A due 10/01/34 Var%	21,986.31	
Carroll County 2006 Series B due 10/01/34 Var%	31,364.39	
Carroll County 2007 Series A due 02/01/26 5.75%	428,255.21	
Trimble County 2007 Series A due 03/01/37 6.00%	223,175.00	
Carroll County 2008 Series A due 02/01/32 Var%	48,049.79	
Fidelia	15,839,704.02	
Customers' Deposits	339,364.12	
Other	82,748.89	

May 22, 2009

Kentucky Utilities Company
Summary Trial Balance
April 30, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		15,445,234.57
Franchise Fee Payable	6,146,992.05	
Vacation Pay Accrued	5,778,248.52	
Customer Overpayments	2,122,156.08	
Derivative Liabilities - Non-Hedging	832,160.23	
Other	565,677.69	
Accumulated Deferred Income Taxes		330,328,894.30
Federal	286,151,974.75	
State	44,176,919.55	
Investment Tax Credit		85,266,430.31
Advance Coal Credit	85,187,658.74	
Job Development Credit	78,771.57	
Regulatory Liabilities		44,068,952.18
Deferred Taxes	25,231,035.45	
DSM Cost Recovery	9,767,900.20	
Asset Retirement Obligations	3,983,459.20	
MISO Schedule 10 Charges	3,567,841.88	
Spare Parts	1,518,715.45	
Customers' Advances for Construction		2,448,529.70
Line Extensions	1,760,646.90	
Outdoor Lighting Deposits	3,795.90	
Customer Advances	800.00	
Other	683,286.90	
Asset Retirement Obligations	33,254,935.91	33,254,935.91
Other Deferred Credits	25,261,530.33	25,261,530.33
Miscellaneous Long-term Liabilities		2,633,401.17
Workers' Compensation	2,600,397.58	
Long-Term Derivative Liabilities-SFAS 133	33,003.59	
Accumulated Provision for Benefits		176,710,078.14
Pension Payable	110,249,944.00	
Postretirement Benefits - SFAS 106	66,032,125.28	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(242,747.00)	
Medicare Subsidy - SFAS 106	(5,072,762.14)	
Total Liabilities and Other Credits	4,401,128,095.63	4,401,128,095.63

May 22, 2009

Kentucky Utilities Company
Statement of Cash Flows
April 30, 2009

	Year to Date	
	2009	2008
Cash Flows from Operating Activities		
Net income	16,685,343.61	52,499,671.12
Items not requiring (providing) cash currently:		
Depreciation	42,311,119.13	40,247,588.11
Amortization	1,569,054.72	1,616,065.86
Deferred income taxes - net	3,932,242.44	(1,646,295.23)
Investment tax credit - net	5,354,113.77	3,095,231.00
Other	8,683,866.88	1,915,885.73
Change in receivables	9,460,996.47	46,103,869.80
Change in inventory	(20,591,726.91)	(5,622,476.81)
Change in allowance inventory	73.76	159,808.84
Change in payables and accrued expenses	(14,423,518.20)	1,869,722.32
Change in regulatory assets	(33,840,605.16)	(379,947.13)
Change in regulatory liabilities	3,585,669.58	431,751.41
Change in other deferred debits	30,861,300.43	8,589,281.06
Change in other deferred credits	3,552,451.01	7,859,895.32
Other	(32,461,669.69)	(3,184,133.38)
Less: Allowance for other funds used during construction	(2,887,223.96)	(2,539,683.82)
Less: Undistributed earnings of subsidiary company	4,368,406.45	(2,377,610.80)
Net cash provided (used) by operating activities	26,159,894.33	148,638,623.40
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(169,580,918.58)	(234,479,131.25)
Less: Allowance for other funds used during construction	2,887,223.96	2,539,683.82
Gain (Loss) on disposal of property	-	1,175.00
Change in non-hedging derivative liability	(3,044,692.55)	385,022.58
Change in other special funds	(246,031.10)	(130,771.92)
Change in restricted cash	1,731,253.15	6,650,607.10
Net cash provided (used) by investing activities	(168,253,165.12)	(225,033,414.67)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	49,581,518.44	(189,814.50)
Net change in short-term debt	41,602,500.00	70,083,000.00
Payments for reacquisition of long-term debt	-	(16,693,620.00)
Contributed capital	50,000,000.00	25,000,000.00
Net cash provided (used) by financing activities	141,184,018.44	78,199,565.50
Net Increase (Decrease) in Cash and Cash Equivalents	(909,252.35)	1,804,774.23
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	1,504,106.31	2,143,284.93

May 22, 2009

Kentucky Utilities Company
Analysis of Interest Charges
April 30, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%..............	6,128.38	84,656.25	26,980.43	289,040.62	33,077.89	289,040.62
Carroll County 2002 Series A due 02/01/32 Var%..............	18,923.01	26,762.95	79,269.69	146,390.39	317,031.66	668,579.44
Carroll County 2002 Series B due 02/01/32 Var%..............	2,169.86	3,068.85	9,089.69	16,786.28	36,353.38	76,664.60
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,169.86	3,068.85	9,089.69	16,786.28	36,353.38	76,664.60
Mercer County 2002 Series A due 02/01/32 Var%..............	6,690.41	9,462.30	28,026.56	51,757.71	112,089.58	236,382.59
Carroll County 2002 Series C due 10/01/32 Var%..............	53,160.00	304,624.00	206,679.99	1,345,834.66	2,423,181.32	3,980,229.33
Carroll County 2004 Series A due 10/01/34 Var%..............	21,986.30	249,861.11	108,904.11	896,944.44	762,322.27	2,235,902.78
Carroll County 2005 Series A due 06/01/35 Var%..............	-	41,569.78	-	184,032.87	259,820.78	534,538.31
Carroll County 2005 Series B due 06/01/35 Var%..............	-	41,569.78	-	182,727.55	260,169.04	525,429.43
Carroll County 2006 Series A due 06/01/36 Var%..............	-	58,490.27	-	265,537.53	566,423.81	716,659.43
Carroll County 2006 Series C due 06/01/36 Var%..............	-	83,916.80	-	351,953.74	(13,613.73)	803,019.49
Carroll County 2006 Series B due 10/01/34 Var%..............	31,364.38	187,042.50	138,950.14	805,492.50	2,218,621.33	2,238,217.50
Carroll County 2007 Series A due 02/01/26 Var%..............	85,651.04	83,913.19	342,604.17	297,623.70	1,030,667.56	742,875.06
Trimble County 2007 Series A due 03/01/37 Var%..............	44,635.00	43,643.11	178,540.00	150,372.84	537,107.86	372,642.73
Carroll County 2008 Series A due 02/01/32 Var%..............	48,049.77	-	198,178.61	-	523,598.36	-
Fidelia..	5,534,887.53	4,193,700.01	22,007,550.06	16,774,800.04	60,785,132.72	42,343,091.59
Hardin Promissory Note..	-	-	-	-	-	349,410.84
Total..	5,855,815.54	5,415,349.75	23,333,863.14	21,776,081.15	69,888,337.21	56,189,348.34
Amortization of Debt Expense - Net						
Amortization of Debt Expense..............................	17,600.69	23,089.36	68,939.32	95,266.72	223,983.88	291,703.44
Amortization of Loss on Reacquired Debt.....................	50,038.88	38,109.22	199,408.89	147,243.22	545,424.91	447,505.12
Total..	67,639.57	61,198.58	268,348.21	242,509.94	769,408.79	739,208.56
Other Interest Charges						
Customers' Deposits..	100,662.78	89,592.61	401,522.88	396,266.20	1,157,462.14	1,111,987.27
Other Tax Deficiencies..	-	-	-	-	19,417.70	(3,424.00)
Interest on DSM Cost Recovery................................	3,453.38	-	20,694.55	-	55,980.42	-
Interest on Debt to Associated Companies...................	12,622.00	113,999.51	54,214.32	431,223.53	1,930,247.35	5,783,521.71
AFUDC Borrowed Funds..	(161,959.30)	(177,316.44)	(665,152.67)	(647,205.99)	(2,066,415.09)	(1,379,940.85)
Other Interest Expense..	148,978.91	8.16	617,405.11	8.16	1,728,396.70	12.75
Total..	103,757.77	26,283.84	428,684.19	180,291.90	2,825,089.22	5,512,156.88
Total Interest..	6,027,212.88	5,502,832.17	24,030,895.54	22,198,882.99	73,482,835.22	62,440,713.78

May 22, 2009

Kentucky Utilities Company
Analysis of Taxes Charged
April 30, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,025,101.01	4,606,922.64	4,100,404.04
Unemployment	7,164.71	8,481.58	110,516.41	86,822.99
FICA	595,370.21	457,991.17	2,372,917.92	1,785,826.99
Public Service Commission Fee	149,395.89	149,209.73	597,583.56	596,838.92
Federal Income	6,116,985.07	2,772,938.57	(3,252,709.72)	21,350,382.39
State Income	1,115,559.59	533,257.42	586,671.58	3,711,891.50
Miscellaneous	12,892.50	14,314.87	32,614.73	28,060.55
Total Charged to Operating Expense	9,301,658.13	4,961,294.35	5,054,517.12	31,660,227.38
Taxes Charged to Other Accounts	647,564.00	1,349,273.83	10,384,551.98	6,162,515.62
Taxes Accrued on Intercompany Accounts	(210,184.16)	(185,197.00)	(885,563.45)	(723,975.96)
Total Taxes Charged	9,739,037.97	6,125,371.18	14,553,505.65	37,098,767.04

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	4,805,810.00	6,649,595.50	4,948,229.74
Unemployment	48,319.14	84,005.60	132,222.62	102.12
FICA	553,448.29	2,084,691.95	2,247,052.78	391,087.46
Federal Income	546,249.77	4,967,956.45	469,253.85	5,044,952.37
State Income	10,477.99	1,161,685.37	(2,414,382.00)	3,586,545.36
Kentucky Sales and Use Tax	577,873.18	1,357,958.64	1,452,150.55	483,681.27
Miscellaneous	30,176.34	91,397.64	98,924.63	22,649.35
Totals	8,558,559.95	14,553,505.65	8,634,817.93	14,477,247.67

May 22, 2009

Kentuck Company
Summar, .tility Plant
April 30, 2009

		Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101	**Utility Plant in Service**						
	Electric						
	Electric Distribution	1,109,442,244.91	5,275,005.82	(216,848.85)	-	5,058,156.97	1,114,500,401.88
	Electric General Plant	106,382,748.13	2,275,679.52	(5,416,319.95)	-	(3,140,640.43)	103,242,107.70
	Electric Hydro Production	11,831,164.24	11,732.37	-	278,123.83	289,856.20	12,121,020.44
	Electric Intangible Plant	26,829,943.42	973,957.28	(11,470,084.09)	-	(10,496,126.81)	16,333,816.61
	Electric Other Production	503,050,995.17	8,816.88	-	12,329,547.37	12,338,364.25	515,389,359.42
	Electric Steam Production	1,715,546,561.48	14,401,884.17	(2,186,759.69)	13,895,917.08	26,111,041.56	1,741,657,603.04
	Electric Transmission	525,624,959.67	6,793,465.40	(2,060,172.43)	(26,503,588.28)	(21,770,295.31)	503,854,664.36
	Total 101 Accounts	3,998,708,617.02	29,740,541.44	(21,350,185.01)	-	8,390,356.43	4,007,098,973.45
105	**Plant Held for Future Use**						
	Electric						
	Electric Distribution	10,137,561.95				-	10,137,561.95
	Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106	**Completed Construction Not Classified**						
	Electric						
	Electric Distribution	121,899,315.73	9,116,878.15	-	-	9,116,878.15	131,016,193.88
	Electric General Plant	2,677,508.16	(286,958.46)	-	-	(286,958.46)	2,390,549.70
	Electric Hydro Production	11,732.37	117,651.09	-	-	117,651.09	129,383.46
	Electric Intangible Plant	1,058,583.09	37,516,694.58	-	-	37,516,694.58	38,575,277.67
	Electric Other Production	210,168.91	140,611.53	-	-	140,611.53	350,780.44
	Electric Steam Production	307,830,864.65	136,022,510.30	-	-	136,022,510.30	443,853,374.95
	Electric Transmission	3,483,426.89	231,869.95	-	-	231,869.95	3,715,296.84
	Total 106 Accounts	437,171,599.80	182,859,257.14	-	-	182,859,257.14	620,030,856.94
121	**Nonutility Property**						
	Common						
	Nonutility Property	179,120.94	-	-	-	-	179,120.94
	Total 121001	179,120.94	-	-	-	-	179,120.94
107	**Construction Work In Progress**						
	Electric						
	Electric	1,176,440,171.77	(23,391,375.60)	-	-	(23,391,375.60)	1,153,048,796.17
	Total 107001	1,176,440,171.77	(23,391,375.60)	-	-	(23,391,375.60)	1,153,048,796.17
	Total Plant (Non-CWIP)	4,446,196,899.71	212,599,798.58	(21,350,185.01)	-	191,249,613.57	4,637,446,513.28
	Total Plant + CWIP	5,622,637,071.48	189,208,422.98	(21,350,185.01)	-	167,858,237.97	5,790,495,309.45
	Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	189,208,422.98	(21,350,185.01)	-	167,858,237.97	5,790,316,188.51

May 22, 2009

Kentuck, Company
Summary of Utility Plant - Res... for Depreciation of Utility Plant
April 30, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(8,452,667.25)	216,848.85	-	-	-	-	-	(395,321,033.25)
Electric Distribution - ARO	(6,386.40)	(60.88)	-	-	-	-	-	-	(6,447.28)
Electric General Plant	(54,006,194.03)	(1,649,022.94)	5,416,319.95	-	-	-	-	-	(50,238,897.02)
Electric Hydro Production	(7,591,558.65)	(33,622.41)	-	(91,028.80)	-	-	-	-	(7,716,209.86)
Electric Hydro Production - ARO	(1,811.92)	(17.28)	-	-	-	-	-	-	(1,829.20)
Electric Other Production	(130,098,501.03)	(5,488,742.46)	-	(1,887,563.75)	-	-	-	-	(137,474,807.24)
Electric Other Production - ARO	(32,068.56)	(814.28)	-	-	-	-	-	-	(32,882.84)
Electric Steam Production	(904,811,374.27)	(17,730,912.56)	2,186,759.69	(5,374,522.03)	-	-	-	-	(925,730,049.17)
Electric Steam Production - ARO	(4,615,135.75)	(98,056.58)	-	(2,024.05)	-	-	-	-	(4,715,216.38)
Electric Transmission	(208,518,367.58)	(2,665,658.97)	2,060,172.43	7,353,114.58	-	-	-	(1,178.01)	(201,771,917.55)
Electric Transmission - ARO	(4,580.08)	(42.29)	-	2,024.05	-	-	-	-	(2,598.32)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(36,119,617.90)	9,880,100.92	-	-	-	-	(1,178.01)	(1,723,011,888.11)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(3,009,400.44)	-	-	-	228,031.08	-	-	(202,653,684.70)
Electric General Plant	152,325.56	(9,732.97)	-	-	-	40,174.58	-	-	182,767.17
Electric Hydro Production	(669,680.63)	(4,473.98)	-	(16,118.61)	-	-	-	-	(690,273.22)
Electric Other Production	(1,644,839.43)	(219,710.70)	-	(95,060.99)	-	-	-	-	(1,959,611.12)
Electric Steam Production	(85,505,341.30)	(3,799,092.83)	-	(31,815.78)	-	523,737.03	-	-	(88,812,512.88)
Electric Transmission	(140,724,513.55)	(1,173,703.67)	-	142,995.38	-	1,636,918.77	-	-	(140,118,303.07)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(8,216,114.59)	-	-	-	2,428,861.46	-	-	(434,051,617.82)
Salvage									
Electric Distribution	45,600,359.15	695,356.79	-	-	-	-	(2,637.82)	-	46,293,078.12
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	861,503.09	-	-	-	-	-	-	15,384,149.51
Electric Transmission	22,387,639.10	228,570.43	-	-	-	-	(400,908.60)	-	22,215,300.93
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	1,787,775.92	-	-	-	-	(403,546.42)	-	84,707,956.06
Total Reserves									
Electric Distribution	(541,357,171.04)	(10,766,710.90)	216,848.85	-	-	228,031.08	(2,637.82)	-	(551,681,639.83)
Electric Distribution - ARO	(6,386.40)	(60.88)	-	-	-	-	-	-	(6,447.28)
Electric General Plant	(53,705,999.58)	(1,656,607.60)	5,416,319.95	-	-	40,174.58	-	-	(49,906,112.65)
Electric Hydro Production	(8,214,917.89)	(37,899.09)	-	(107,147.41)	-	-	-	-	(8,359,964.39)
Electric Hydro Production - ARO	(1,811.92)	(17.28)	-	-	-	-	-	-	(1,829.20)
Electric Other Production	(131,124,448.85)	(5,708,453.16)	-	(1,982,624.74)	-	-	-	-	(138,815,526.75)
Electric Other Production - ARO	(32,068.56)	(814.28)	-	-	-	-	-	-	(32,882.84)
Electric Steam Production	(975,794,069.15)	(20,668,502.30)	2,186,759.69	(5,406,337.81)	-	523,737.03	-	-	(999,158,412.54)
Electric Steam Production - ARO	(4,615,135.75)	(98,056.58)	-	(2,024.05)	-	-	-	-	(4,715,216.38)
Electric Transmission	(326,855,242.03)	(3,610,792.21)	2,060,172.43	7,496,109.96	-	1,636,918.77	(400,908.60)	(1,178.01)	(319,674,919.69)
Electric Transmission - ARO	(4,580.08)	(42.29)	-	2,024.05	-	-	-	-	(2,598.32)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(42,547,956.57)	9,880,100.92	-	-	2,428,861.46	(403,546.42)	(1,178.01)	(2,072,355,549.87)
Retirement Work in Process									
Electric	11,271,917.81	-	-	-	(2,024,137.03)	10,449,142.03	(255,134.29)	9,425.18	19,451,213.70
	11,271,917.81	-	-	-	(2,024,137.03)	10,449,142.03	(255,134.29)	9,425.18	19,451,213.70
YTD Activity	(2,030,439,913.44)	(42,547,956.57)	9,880,100.92	-	(2,024,137.03)	12,878,003.49	(658,680.71)	8,247.17	(2,052,904,336.17)
Amortization									
Electric	(22,052,247.99)	(1,569,054.72)	11,470,084.09	-	-	-	-	-	(12,151,218.62)
	(22,052,247.99)	(1,569,054.72)	11,470,084.09	-	-	-	-	-	(12,151,218.62)
Depreciation & Amortization Total	(2,052,492,161.43)	(44,117,011.29)	21,350,185.01	-	(2,024,137.03)	12,878,003.49	(658,680.71)	8,247.17	(2,065,055,554.79)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,725,260,633.72

May 22, 2009

KU Monthly Report to KPSC – March 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

March 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
March 31, 2009

Kentucky [illegible]es Company
Comparative Statement of Income
March 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	108,936,553.74	110,934,719.03	(1,998,165.29)	(1.80)
Total Operating Revenues	108,936,553.74	110,934,719.03	(1,998,165.29)	(1.80)
Fuel for Electric Generation	32,510,913.75	38,471,098.40	(5,960,184.65)	(15.49)
Power Purchased	19,451,905.56	18,869,231.84	582,673.72	3.09
Other Operation Expenses	5,661,320.71	14,548,395.07	(8,887,074.36)	(61.09)
Maintenance	26,893,349.88	7,876,870.72	19,016,479.16	241.42
Depreciation	10,119,551.93	10,033,086.34	86,465.59	0.86
Amortization Expense	285,867.44	424,957.09	(139,089.65)	(32.73)
Regulatory Credits	(197,399.95)	(189,735.86)	(7,664.09)	(4.04)
Taxes				
Federal Income	(7,518,185.94)	4,286,504.78	(11,804,690.72)	(275.39)
State Income	(252,980.97)	430,376.56	(683,357.53)	(158.78)
Deferred Federal Income - Net	3,879,162.60	(3,478,563.50)	7,357,726.10	211.52
Deferred State Income - Net	53,079.84	(438,703.98)	491,783.82	112.10
Property and Other	1,974,114.85	1,506,023.59	468,091.26	31.08
Investment Tax Credit	5,354,113.77	3,200,000.00	2,154,113.77	67.32
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,049.10)	498,341.34	85.47
Accretion Expense	172,655.48	165,157.94	7,497.54	4.54
Total Operating Expenses	98,302,761.19	95,121,649.89	3,181,111.30	3.34
Net Operating Income	10,633,792.55	15,813,069.14	(5,179,276.59)	(32.75)
Other Income Less Deductions				
Other Income Less Deductions	2,656,121.88	3,295,723.77	(639,601.89)	(19.41)
AFUDC - Equity	506,504.31	495,049.32	11,454.99	2.31
Total Other Income Less Deductions	3,162,626.19	3,790,773.09	(628,146.90)	(16.57)
Income Before Interest Charges	13,796,418.74	19,603,842.23	(5,807,423.49)	(29.62)
Interest on Long-term Debt	5,836,657.07	5,497,932.06	338,725.01	6.16
Amortization of Debt Expense - Net	67,604.26	60,437.12	7,167.14	11.86
Other Interest Expenses	525,340.70	248,119.42	277,221.28	111.73
AFUDC - Borrowed Funds	(151,372.90)	(169,108.52)	17,735.62	10.49
Total Interest Charges	6,278,229.13	5,637,380.08	640,849.05	11.37
Net Income	7,518,189.61	13,966,462.15	(6,448,272.54)	(46.17)

April 22, 2009

Kentucky ι .es Company
Comparative Statement of Income
March 31, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	361,446,188.04	352,196,646.61	9,249,541.43	2.63
Total Operating Revenues	361,446,188.04	352,196,646.61	9,249,541.43	2.63
Fuel for Electric Generation	115,147,246.19	123,134,827.26	(7,987,581.07)	(6.49)
Power Purchased	63,896,289.41	56,064,645.35	7,831,644.06	13.97
Other Operation Expenses	49,088,626.57	40,832,600.88	8,256,025.69	20.22
Maintenance	77,364,377.33	21,336,044.05	56,028,333.28	262.60
Depreciation	31,949,478.06	30,337,414.39	1,612,063.67	5.31
Amortization Expense	1,127,747.79	1,186,934.89	(59,187.10)	(4.99)
Regulatory Credits	(589,505.07)	(569,207.58)	(20,297.49)	(3.57)
Taxes				
Federal Income	(9,369,694.79)	18,577,443.82	(27,947,138.61)	(150.44)
State Income	(528,888.01)	3,178,634.08	(3,707,522.09)	(116.64)
Deferred Federal Income - Net	3,879,162.60	(3,478,563.50)	7,357,726.10	211.52
Deferred State Income - Net	53,079.84	(438,703.98)	491,783.82	112.10
Property and Other	5,651,441.79	4,942,855.13	708,586.66	14.34
Investment Tax Credit	5,354,113.77	3,200,000.00	2,154,113.77	67.32
Loss (Gain) from Disposition of Allowances	(84,707.76)	(583,049.10)	498,341.34	85.47
Accretion Expense	515,262.75	495,473.82	19,788.93	3.99
Total Operating Expenses	343,454,030.47	298,217,349.51	45,236,680.96	15.17
Net Operating Income	17,992,157.57	53,979,297.10	(35,987,139.53)	(66.67)
Other Income Less Deductions				
Other Income Less Deductions	5,667,179.34	7,272,586.59	(1,605,407.25)	(22.07)
AFUDC - Equity	1,681,271.55	1,368,920.39	312,351.16	22.82
Total Other Income Less Deductions	7,348,450.89	8,641,506.98	(1,293,056.09)	(14.96)
Income Before Interest Charges	25,340,608.46	62,620,804.08	(37,280,195.62)	(59.53)
Interest on Long-term Debt	17,478,047.60	16,360,731.40	1,117,316.20	6.83
Amortization of Debt Expense - Net	200,708.64	181,311.36	19,397.28	10.70
Other Interest Expenses	828,119.79	623,897.61	204,222.18	32.73
AFUDC - Borrowed Funds	(503,193.37)	(469,889.55)	(33,303.82)	(7.09)
Total Interest Charges	18,003,682.66	16,696,050.82	1,307,631.84	7.83
Net Income	7,336,925.80	45,924,753.26	(38,587,827.46)	(84.02)

April 22, 2009

Kentucky U[illegible]es Company
Comparative Statement of Income
March 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,413,291,594.68	1,307,912,985.27	105,378,609.41	8.06
Total Operating Revenues	1,413,291,594.68	1,307,912,985.27	105,378,609.41	8.06
Fuel for Electric Generation	504,411,889.67	474,132,914.53	30,278,975.14	6.39
Power Purchased	229,008,412.36	179,653,481.18	49,354,931.18	27.47
Other Operation Expenses	175,168,253.33	156,651,000.78	18,517,252.55	11.82
Maintenance	144,807,125.76	88,589,243.29	56,217,882.47	63.46
Depreciation	132,727,072.76	118,462,550.55	14,264,522.21	12.04
Amortization Expense	5,170,468.75	5,209,304.62	(38,835.87)	(0.75)
Regulatory Credits	(2,296,846.20)	(2,186,315.94)	(110,530.26)	(5.06)
Taxes				
Federal Income	15,237,490.20	33,478,703.94	(18,241,213.74)	(54.49)
State Income	6,346,211.84	12,262,217.31	(5,916,005.47)	(48.25)
Deferred Federal Income - Net	(2,835,781.92)	(7,366,632.74)	4,530,850.82	61.51
Deferred State Income - Net	(2,667,085.04)	(651,073.62)	(2,016,011.42)	(309.64)
Property and Other	21,369,680.98	18,860,457.78	2,509,223.20	13.30
Investment Tax Credit	27,421,011.74	35,891,647.00	(8,470,635.26)	(23.60)
Loss (Gain) from Disposition of Allowances	(84,765.21)	(583,130.32)	498,365.11	85.46
Accretion Expense	2,001,364.29	1,891,275.36	110,088.93	5.82
Total Operating Expenses	1,255,784,503.31	1,114,295,643.72	141,488,859.59	12.70
Net Operating Income	157,507,091.37	193,617,341.55	(36,110,250.18)	(18.65)
Other Income Less Deductions				
Other Income Less Deductions	27,775,782.72	30,184,464.02	(2,408,681.30)	(7.98)
AFUDC - Equity	6,353,319.72	4,161,960.43	2,191,359.29	52.65
Total Other Income Less Deductions	34,129,102.44	34,346,424.45	(217,322.01)	(0.63)
Income Before Interest Charges	191,636,193.81	227,963,766.00	(36,327,572.19)	(15.94)
Interest on Long-term Debt	69,447,871.42	53,652,332.31	15,795,539.11	29.44
Amortization of Debt Expense - Net	762,967.80	753,311.75	9,656.05	1.28
Other Interest Expenses	4,829,387.52	6,962,645.41	(2,133,257.89)	(30.64)
AFUDC - Borrowed Funds	(2,081,772.23)	(1,273,125.79)	(808,646.44)	(63.52)
Total Interest Charges	72,958,454.51	60,095,163.68	12,863,290.83	21.40
Net Income	118,677,739.30	167,868,602.32	(49,190,863.02)	(29.30)

April 22, 2009

Kentucky U ..es Company
Analysis of Retained Earnings
March 31, 2009

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance at Beginning of Period..............................	1,177,509,196.61	17,272,156.35	1,174,207,029.97	20,755,586.80	1,062,432,544.47	21,189,258.80
Add:						
Net Income for Period..................................	7,518,189.61		7,336,925.80		118,677,739.30	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..	373,313.00	(373,313.00)	(1,993,256.55)	1,993,256.55	(24,059,584.55)	24,059,584.55
Dividends Received Current Year -EE Inc..	-	-	5,850,000.00	(5,850,000.00)	28,350,000.00	(28,350,000.00)
Balance at End of Period..................................	1,185,400,699.22	16,898,843.35	1,185,400,699.22	16,898,843.35	1,185,400,699.22	16,898,843.35

Deferred Taxes Related to Undistributed Subsidiary Earnings						
Balance of Undistributed Subsidiary Earnings............		16,898,843.35		16,898,843.35		16,898,843.35
Statutory Tax Rate...		38.9%		38.9%		38.9%
Deferred Taxes on Equity in Subsidiary....................		6,573,650.06		6,573,650.06		6,573,650.06

Combined Balance of Retained Earnings	12 MONTHS 3/31/2009	12 MONTHS 3/31/2008
Retained Earnings at Beginning of Period....................	1,083,621,803.27	915,745,512.95
Net Income..	118,677,739.30	167,868,602.32
FIN 48 Adjustment..	-	7,688.00
Retained Earnings at End of Period.........................	1,202,299,542.57	1,083,621,803.27

April 22, 2009

Kentucky ..s Company
Comparative Balance Sheets as of March 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,749,635,906.64	5,099,990,520.85
Less Reserves for Depreciation and Amortization	2,060,524,103.55	1,961,946,069.74
Total	3,689,111,803.09	3,138,044,451.11
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	18,194,643.35	22,485,058.80
Special Funds	6,182,077.15	6,013,770.41
Other	411,140.00	411,140.00
Total	25,216,981.44	29,339,090.15
Current and Accrued Assets		
Cash	2,093,395.33	-
Special Deposits	7,771,550.05	5,840,598.36
Temporary Cash Investments	269.25	17,646.43
Accounts Receivable-Less Reserve	161,921,648.04	161,683,612.91
Accounts Receivable from Associated Companies	936,940.68	1,413,499.32
Materials and Supplies-At Average Cost		
Fuel	85,660,668.53	36,893,399.79
Plant Materials and Operating Supplies	29,522,038.27	27,633,554.26
Stores Expense	6,314,976.01	6,468,774.55
Allowance Inventory	74,354.84	256,907.03
Prepayments	4,536,693.49	4,110,492.42
Miscellaneous Current and Accrued Assets	4,167,832.65	-
Total	303,000,367.14	244,318,485.07
Deferred Debits and Other		
Unamortized Debt Expense	4,874,237.74	7,208,953.80
Unamortized Loss on Bonds	13,361,081.13	10,064,532.95
Accumulated Deferred Income Taxes	50,599,415.33	50,537,997.37
Deferred Regulatory Assets	221,487,093.70	82,423,811.28
Other Deferred Debits	45,710,735.89	62,153,071.46
Total	336,032,563.79	212,388,366.86
Total Assets and Other Debits	4,353,361,715.46	3,624,090,393.19

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	290,711,597.00	115,000,000.00
Retained Earnings	1,185,400,699.22	1,062,432,544.47
Unappropriated Undistributed Subsidiary Earnings	16,898,843.35	21,189,258.80
Total Common Equity	1,800,829,828.26	1,506,440,491.96
Pollution Control Bonds	350,779,405.00	332,753,140.00
LT Notes Payable to Associated Companies	1,181,000,000.00	931,000,000.00
Total Long-term Debt	1,531,779,405.00	1,263,753,140.00
Total Capitalization	3,332,609,233.26	2,770,193,631.96
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	12,820,954.00	50,063,454.00
Accounts Payable	214,255,908.56	146,239,569.89
Accounts Payable to Associated Companies	23,244,665.54	17,431,220.75
Customer Deposits	21,362,380.00	19,763,232.68
Taxes Accrued	4,785,457.87	23,657,749.49
Interest Accrued	17,063,941.32	12,781,886.66
Miscellaneous Current and Accrued Liabilities	13,403,343.82	12,434,972.49
Total	306,936,651.11	282,372,085.96
Deferred Credits and Other		
Accumulated Deferred Income Taxes	330,328,894.30	331,434,967.30
Investment Tax Credit	85,276,277.31	58,120,536.32
Regulatory Liabilities	43,751,985.96	37,804,173.47
Customer Advances for Construction	2,469,951.88	2,464,193.49
Asset Retirement Obligations	33,081,372.89	30,810,533.08
Other Deferred Credits	25,323,474.84	21,200,008.18
Miscellaneous Long-term Liabilities	2,666,309.97	3,211,431.14
Accum Provision for Postretirement Benefits	190,917,563.94	86,478,832.29
Total	713,815,831.09	571,524,675.27
Total Liabilities and Other Credits	4,353,361,715.46	3,624,090,393.19

April 22, 2009

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
March 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			290,711,597.00		
Retained Earnings			1,185,400,699.22		
Unappropriated Undistributed Subsidiary Earnings			16,898,843.35		
Total Common Equity			1,800,829,828.26	53.83	54.04
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.48	10.53
Long-term Notes Payable to Associated Companies			1,181,000,000.00	35.31	35.43
Total Capitalization			3,332,609,233.26	99.62	100.00
Short-term Notes Payable to Associated Companies			12,820,954.00	0.38	
Total Capitalization and Short-term Debt			3,345,430,187.26	100.00	

April 22, 2009

Kentucky Utilities Company
Summary Trial Balance
March 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,749,635,906.64	5,749,635,906.64
Reserves for Depreciation and Amortization		(2,060,524,103.55)
Depreciation	(2,048,814,191.86)	
Amortization of Plant	(11,709,911.69)	
Investments		25,216,981.44
Investments in Subsidiary Companies	18,194,643.35	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,430,279.36	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
Ally	411,140.00	
OMU - Revenue and Investments Interest on Purchase Power	363,733.16	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	2,093,395.33	2,093,395.33
Special Deposits		7,771,550.05
Restricted Cash	7,771,550.05	
Temporary Cash Investments	269.25	269.25
Accounts Receivable - Less Reserve		161,921,648.04
Customers - Active	69,643,075.95	
Unbilled Revenues	67,959,318.54	
Income Tax Receivable - Federal	6,778,128.58	
IMPA	4,775,879.01	
Wholesale Sales	4,501,190.31	
IMEA	4,494,072.47	
Transmission Sales	719,847.51	
Damage Claims	111,266.09	
Interest and Dividends Receivable	63,940.91	
Employee Computer Loans	51,891.88	
Working Funds	32,367.13	
Electricity Swaps	13,183.64	
Billed Projects	(6,587.26)	
Other	5,790,388.46	
Reserves for Uncollectible Accounts		
Utility Customers		
LEM Reserve	(1,899,079.22)	
Reserve	(1,098,255.00)	
Accrual	(650,770.20)	
Recoveries	(275,506.42)	
Charged Off	926,276.66	
A/R Miscellaneous	(8,981.00)	
Accounts Receivable from Associated Companies		936,940.68
E.ON US Services/Louisville Gas and Electric Company	936,940.68	

Kentucky Utilities Company
Summary Trial Balance
March 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		85,660,668.53
Coal 1,315,418.26 Tons @ $60.74 MMBtu 30,947,019.64 @ 258.16¢	79,894,167.90	
Fuel Oil 2,777,720.00 Gallons @ 205.23¢	5,700,753.39	
Gas Pipeline 12,667.20 Mcf @ $5.19	65,747.24	
Plant Materials and Operating Supplies		29,522,038.27
Regular Materials and Supplies	28,732,946.49	
Limestone 93,051.36 Tons @ $8.48	789,091.78	
Stores Expense Undistributed	6,314,976.01	6,314,976.01
Allowance Inventory	74,354.84	74,354.84
Prepayments		4,536,693.49
Insurance	2,519,746.71	
Taxes	448,187.72	
Vehicle License	97,795.07	
Risk Management and Workers Compensation	75,000.00	
Other	1,395,963.99	
Miscellaneous Current Assets		4,167,832.65
Derivative Asset - Non-Hedging	4,083,124.89	
Miscellaneous Current Assets	84,707.76	
Unamortized Debt Expense		4,874,237.74
Carroll County 2002 Series A due 02/01/32 Var%	93,630.34	
Carroll County 2002 Series B due 02/01/32 Var%	65,083.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	26,123.40	
Mercer County 2002 Series A due 02/01/32 Var%	72,452.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,713,911.79	
Carroll County 2006 Series B due 10/01/34 Var%	1,177,210.65	
Carroll County 2007 Series A due 02/01/26 Var%	561,053.28	
Trimble County 2007 Series A due 03/01/37 Var%	433,564.75	
Carroll County 2008 Series A due 02/01/32 Var%	731,207.80	
Unamortized Loss on Bonds	13,361,081.13	13,361,081.13
Accumulated Deferred Income Taxes		50,599,415.33
Federal	42,692,097.50	
State	7,907,317.83	
Regulatory Assets		221,487,093.70
Pension and Postretirement Benefits	126,832,090.11	
Asset Retirement Obligations	28,460,821.73	
Environmental Cost Recovery	22,753,192.00	
MISO Exit Fee	12,355,390.24	
SFAS 109 - Deferred Taxes	10,266,643.05	
Fuel Adjustment Clause	9,085,000.00	
FERC Jurisdictional Pension Expense	3,109,137.77	
VA Fuel Component	2,374,257.00	
2008 Wind Storm	2,195,516.35	
EKPC FERC Transmission Cost	1,645,593.84	
Rate Case Expenses	1,344,134.84	
KCCS Funding	693,433.77	
2003 Ice Storm Expenses	197,883.00	
Other	174,000.00	
Other Deferred Debits	45,710,735.89	45,710,735.89
Total Assets and Other Debits	4,353,361,715.46	4,353,361,715.46

April 22, 2009

Kentucky Utilities Company
Summary Trial Balance
March 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,800,829,828.26
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	290,711,597.00	
Retained Earnings	1,185,400,699.22	
Unappropriated Undistributed Subsidiary Earnings	16,898,843.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,181,000,000.00	1,181,000,000.00
Short-term Notes Payable to Associated Companies	12,820,954.00	12,820,954.00
Accounts Payable		214,255,908.56
Regular	207,899,233.87	
Salaries and Wages Accrued	3,357,465.51	
Tax Collections - Payable	3,104,775.19	
Employee Withholdings Payable	(105,566.01)	
Accounts Payable to Associated Companies		23,244,665.54
E.ON US Services/Louisville Gas and Electric Company	23,244,665.54	
Customers' Deposits	21,362,380.00	21,362,380.00
Taxes Accrued	4,785,457.87	4,785,457.87
Interest Accrued		17,063,941.32
Mercer County 2000 Series A due 05/01/23 Var%	6,308.57	
Carroll County 2002 Series A due 02/01/32 Var%	30,276.83	
Carroll County 2002 Series B due 02/01/32 Var%	3,471.77	
Muhlenburg County 2002 Series A due 02/01/32 Var%	3,471.77	
Mercer County 2002 Series A due 02/01/32 Var%	10,704.66	
Carroll County 2002 Series C due 10/01/32 Var%	53,909.30	
Carroll County 2004 Series A due 10/01/34 Var%	28,356.16	
Carroll County 2006 Series B due 10/01/34 Var%	36,527.68	
Carroll County 2007 Series A due 02/01/26 Var%	342,604.17	
Trimble County 2007 Series A due 03/01/37 Var%	178,540.00	
Carroll County 2008 Series A due 02/01/32 Var%	49,010.79	
Fidelia	15,997,066.49	
Customers' Deposits	243,021.49	
Other	80,671.64	

April 22, 2009

Kentucky Utilities Company
Summary Trial Balance
March 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		13,403,343.82
Vacation Pay Accrued	5,778,248.52	
Franchise Fee Payable	4,765,469.35	
Customer Overpayments	1,780,055.82	
Derivative Liabilities - Non-Hedging	612,549.70	
Other	467,020.43	
Accumulated Deferred Income Taxes		330,328,894.30
Federal	286,151,974.75	
State	44,176,919.55	
Investment Tax Credit		85,276,277.31
Advance Coal Credit	85,187,658.74	
Job Development Credit	88,618.57	
Regulatory Liabilities		43,751,985.96
Deferred Taxes	25,231,035.45	
DSM Cost Recovery	9,506,999.19	
Asset Retirement Obligations	3,964,765.40	
MISO Schedule 10 Charges	3,530,470.47	
Spare Parts	1,518,715.45	
Customers' Advances for Construction		2,469,951.88
Line Extensions	1,576,069.08	
Customer Advances	890,086.90	
Outdoor Lighting Deposits	3,795.90	
Asset Retirement Obligations	33,081,372.89	33,081,372.89
Other Deferred Credits	25,323,474.84	25,323,474.84
Miscellaneous Long-term Liabilities		2,666,309.97
Workers' Compensation	2,549,861.53	
Long-Term Derivative Liabilities-SFAS 133	116,448.44	
Accumulated Provision for Benefits		190,917,563.94
Pension Payable	123,549,944.00	
Postretirement Benefits - SFAS 106	67,483,429.94	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(258,069.00)	
Medicare Subsidy - SFAS 106	(5,601,259.00)	
Total Liabilities and Other Credits	4,353,361,715.46	4,353,361,715.46

April 22, 2009

Kentucky Utilities Company
Statement of Cash Flows
March 31, 2009

	Year to Date 2009	Year to Date 2008
Cash Flows from Operating Activities		
Net income	7,336,925.80	45,924,753.26
Items not requiring (providing) cash currently:		
Depreciation	31,949,478.06	30,337,414.39
Amortization	1,127,747.79	1,186,934.89
Deferred income taxes - net	3,932,242.44	(1,646,295.23)
Investment tax credit - net	5,354,113.77	3,121,424.00
Other	6,776,346.49	560,510.61
Change in receivables	14,353,524.18	25,653,195.51
Change in inventory	(13,025,649.97)	4,599,733.25
Change in allowance inventory	64.44	125,987.08
Change in payables and accrued expenses	28,513,514.87	5,904,155.49
Change in regulatory assets	(32,456,674.98)	(258,560.66)
Change in regulatory liabilities	3,268,703.36	83,137.39
Change in other deferred debits	30,928,209.00	6,919,906.91
Change in other deferred credits	3,614,395.52	7,763,864.58
Other	(12,234,610.88)	(4,380,600.67)
Less: Allowance for other funds used during construction	(2,184,464.92)	(1,838,809.94)
Less: Undistributed earnings of subsidiary company	3,856,743.45	17,809.20
Net cash provided (used) by operating activities	81,110,608.42	124,074,560.06
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(129,197,997.53)	(183,511,502.96)
Less: Allowance for other funds used during construction	2,184,464.92	1,838,809.94
Gain (Loss) on disposal of property	-	1,175.00
Change in long-term investments	-	287,136.27
Change in non-hedging derivative liability	(2,135,958.34)	-
Change in other special funds	(184,245.80)	-
Change in restricted cash	1,738,458.61	5,144,957.42
Net cash provided (used) by investing activities	(127,595,278.14)	(176,239,424.33)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	(408,524.36)	-
Net change in short-term debt	(3,426,500.00)	26,844,000.00
Contributed capital	50,000,000.00	25,000,000.00
Net cash provided (used) by financing activities	46,164,975.64	51,844,000.00
Net Increase (Decrease) in Cash and Cash Equivalents	(319,694.08)	(320,864.27)
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	2,093,664.58	17,646.43

April 22, 2009

Kentucky ι ...s Company
Analysis of Interest Charges
March 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Mercer County 2000 Series A due 05/01/23 Var%..............	6,556.03	95,630.21	20,852.05	204,384.37	111,605.76	204,384.37
Carroll County 2002 Series A due 02/01/32 Var%..............	19,553.78	21,273.11	60,346.68	119,627.44	324,871.60	706,676.56
Carroll County 2002 Series B due 02/01/32 Var%..............	2,242.19	2,439.34	6,919.83	13,717.43	37,252.37	81,033.12
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,242.19	2,439.34	6,919.83	13,717.43	37,252.37	81,033.12
Mercer County 2002 Series A due 02/01/32 Var%..............	6,913.43	7,521.31	21,336.15	42,295.41	114,861.47	249,852.18
Carroll County 2002 Series C due 10/01/32 Var%..............	59,565.33	342,893.33	153,519.99	1,041,210.66	2,674,645.32	3,956,005.33
Carroll County 2004 Series A due 10/01/34 Var%..............	29,589.04	260,173.61	86,917.81	647,083.33	990,197.08	2,136,944.45
Carroll County 2005 Series A due 06/01/35 Var%..............	-	46,482.97	-	142,463.09	301,390.56	533,285.32
Carroll County 2005 Series B due 06/01/35 Var%..............	-	46,467.49	-	141,157.77	301,738.82	524,029.03
Carroll County 2006 Series A due 06/01/36 Var%..............	-	62,137.36	-	207,047.26	624,914.08	709,641.16
Carroll County 2006 Series C due 06/01/36 Var%..............	-	118,063.31	-	268,036.94	70,303.07	769,865.21
Carroll County 2006 Series B due 10/01/34 Var%..............	37,888.77	200,325.00	107,585.76	618,450.00	2,374,299.45	2,215,200.00
Carroll County 2007 Series A due 02/01/26 Var%..............	85,651.04	65,616.14	256,953.13	213,710.51	1,028,929.71	658,961.87
Trimble County 2007 Series A due 03/01/37 Var%..............	44,635.00	32,769.53	133,905.00	106,729.73	536,115.97	328,999.62
Carroll County 2008 Series A due 02/01/32 Var%..............	50,932.76	-	150,128.84	-	475,548.59	-
Fidelia..	5,490,887.51	4,193,700.01	16,472,662.53	12,581,100.03	59,443,945.20	40,810,008.23
Hardin Promissory Note..	-	-	-	-	-	(313,587.26)
Total..	5,836,657.07	5,497,932.06	17,478,047.60	16,360,731.40	69,447,871.42	53,652,332.31
Amortization of Debt Expense - Net						
Amortization of Debt Expense..	17,565.38	24,059.12	51,338.63	72,177.36	229,472.55	289,064.85
Amortization of Loss on Reacquired Debt..........................	50,038.88	36,378.00	149,370.01	109,134.00	533,495.25	464,246.90
Total..	67,604.26	60,437.12	200,708.64	181,311.36	762,967.80	753,311.75
Other Interest Charges						
Customers' Deposits..	79,273.11	128,287.88	300,860.10	306,673.59	1,146,391.97	1,145,599.57
Other Tax Deficiencies..	-	-	-	-	19,417.70	(3,424.00)
Interest on DSM Cost Recovery..................................	3,563.99	-	17,241.17	-	52,527.04	-
Interest on Debt to Associated Companies......................	10,028.32	119,831.54	41,592.32	317,224.02	2,031,624.86	5,820,465.25
AFUDC Borrowed Funds..	(151,372.90)	(169,108.52)	(503,193.37)	(469,889.55)	(2,081,772.23)	(1,273,125.79)
Other Interest Expense..	432,475.28	-	468,426.20	-	1,579,425.95	4.59
Total..	373,967.80	79,010.90	324,926.42	154,008.06	2,747,615.29	5,689,519.62
Total Interest..	6,278,229.13	5,637,380.08	18,003,682.66	16,696,050.82	72,958,454.51	60,095,163.68

April 22, 2009

Kentucky Utilities Company
Analysis of Taxes Charged
March 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,304,290.16	1,025,101.01	3,302,632.48	3,075,303.03
Unemployment	38,628.05	15,982.03	103,351.70	78,341.41
FICA	476,766.74	312,966.53	1,777,547.71	1,327,835.82
Public Service Commission Fee	149,395.89	149,209.73	448,187.67	447,629.19
Federal Income	(7,518,185.94)	4,286,504.78	(9,369,694.79)	18,577,443.82
State Income	(252,980.97)	430,376.56	(528,888.01)	3,178,634.08
Miscellaneous	5,034.01	2,764.29	19,722.23	13,745.68
Total Charged to Operating Expense	(5,797,052.06)	6,222,904.93	(4,247,141.01)	26,698,933.03
Taxes Charged to Other Accounts	7,119,697.91	2,132,097.22	9,736,987.98	4,813,241.79
Taxes Accrued on Intercompany Accounts	(237,280.28)	(173,008.94)	(675,379.29)	(538,778.96)
Total Taxes Charged	1,085,365.57	8,181,993.21	4,814,467.68	30,973,395.86

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	3,451,798.00	6,621,588.50	3,622,224.74
Unemployment	48,319.14	83,216.70	1,104.07	130,431.77
FICA	553,448.29	1,558,944.06	1,848,159.53	264,232.82
Federal Income	546,249.77	(1,459,405.92)	(913,156.15)	-
State Income	10,477.99	(10,477.99)	-	-
Kentucky Sales and Use Tax	577,873.18	1,089,553.26	931,880.09	735,546.35
Miscellaneous	30,176.34	100,839.57	97,993.72	33,022.19
Totals	8,558,559.95	4,814,467.68	8,587,569.76	4,785,457.87

April 22, 2009

Kentucky Company
Summary of Utility Plant
March 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	1,890,515.61	(7,682.20)	-	1,882,833.41	1,111,325,078.32
Electric General Plant	106,382,748.13	1,917,287.58	(5,414,369.00)	-	(3,497,081.42)	102,885,666.71
Electric Hydro Production	11,831,164.24	11,732.37	-	278,123.83	289,856.20	12,121,020.44
Electric Intangible Plant	26,829,943.42	685,764.68	(11,470,084.09)	-	(10,784,319.41)	16,045,624.01
Electric Other Production	503,050,995.17	8,816.88	-	12,329,547.37	12,338,364.25	515,389,359.42
Electric Steam Production	1,715,546,561.48	14,401,884.17	(2,186,759.69)	13,895,917.08	26,111,041.56	1,741,657,603.04
Electric Transmission	525,624,959.67	5,268,602.04	(1,811,735.73)	(26,503,588.28)	(23,046,721.97)	502,578,237.70
Total 101 Accounts	3,998,708,617.02	24,184,603.33	(20,890,630.71)	-	3,293,972.62	4,002,002,589.64
105 Plant Held for Future Use						
Electric						
Electric Distribution	10,137,561.95				-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	4,696,606.97	-	-	4,696,606.97	126,595,922.70
Electric General Plant	2,677,508.16	(1,138,092.86)	-	-	(1,138,092.86)	1,539,415.30
Electric Hydro Production	11,732.37	117,651.09	-	-	117,651.09	129,383.46
Electric Intangible Plant	1,058,583.09	(28,203.71)	-	-	(28,203.71)	1,030,379.38
Electric Other Production	210,168.91	(210,168.91)	-	-	(210,168.91)	-
Electric Steam Production	307,830,864.65	129,497,799.51	-	-	129,497,799.51	437,328,664.16
Electric Transmission	3,483,426.89	418,625.88	-	-	418,625.88	3,902,052.77
Total 106 Accounts	437,171,599.80	133,354,217.97	-	-	133,354,217.97	570,525,817.77
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	(9,470,234.49)	-	-	(9,470,234.49)	1,166,969,937.28
Total 107001	1,176,440,171.77	(9,470,234.49)	-	-	(9,470,234.49)	1,166,969,937.28
Total Plant (Non-CWIP)	4,446,196,899.71	157,538,821.30	(20,890,630.71)	-	136,648,190.59	4,582,845,090.30
Total Plant + CWIP	5,622,637,071.48	148,068,586.81	(20,890,630.71)	-	127,177,956.10	5,749,815,027.58
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	148,068,586.81	(20,890,630.71)	-	127,177,956.10	5,749,635,906.64

April 22, 2009

Kentucky Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
March 31, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(6,374,479.71)	7,682.20	-	-	-	-	-	(393,452,012.36)
Electric Distribution - ARO	(6,386.40)	(45.66)	-	-	-	-	-	-	(6,432.06)
Electric General Plant	(54,006,194.03)	(1,238,401.65)	5,414,369.00	-	-	-	-	-	(49,830,226.68)
Electric Hydro Production	(7,591,558.65)	(25,916.64)	-	(91,028.80)	-	-	-	-	(7,708,504.09)
Electric Hydro Production - ARO	(1,811.92)	(12.96)	-	-	-	-	-	-	(1,824.88)
Electric Other Production	(130,098,501.03)	(4,119,251.44)	-	(1,887,563.75)	-	-	-	-	(136,105,316.22)
Electric Other Production - ARO	(32,068.56)	(610.71)	-	-	-	-	-	-	(32,679.27)
Electric Steam Production	(904,811,374.27)	(13,289,411.16)	2,186,759.69	(5,374,522.03)	-	-	-	-	(921,288,547.77)
Electric Steam Production - ARO	(4,615,135.75)	(73,536.84)	-	(2,024.05)	-	-	-	-	(4,690,696.64)
Electric Transmission	(208,518,367.58)	(2,050,859.60)	1,811,735.73	7,353,114.58	-	-	-	-	(201,404,376.87)
Electric Transmission - ARO	(4,580.08)	(36.15)	-	2,024.05	-	-	-	-	(2,592.18)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(27,172,562.52)	9,420,546.62	0.00	-	-	-	-	(1,714,523,209.02)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(2,402,883.81)	-	-	-	4,115.05	-	-	(202,271,084.10)
Electric General Plant	152,325.56	(6,467.34)	-	-	-	40,145.78	-	-	186,004.00
Electric Hydro Production	(669,680.63)	(4,363.74)	-	(16,118.61)	-	-	-	-	(690,162.98)
Electric Other Production	(1,644,839.43)	(146,490.58)	-	(95,060.99)	-	-	-	-	(1,886,391.00)
Electric Steam Production	(85,505,341.30)	(2,755,451.35)	-	(31,815.78)	-	523,737.03	-	-	(87,768,871.40)
Electric Transmission	(140,724,513.55)	(992,002.82)	-	142,995.38	-	1,338,345.02	-	-	(140,235,175.97)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(6,307,659.64)	-	-	-	1,906,342.88	-	-	(432,665,681.45)
Salvage									
Electric Distribution	45,600,359.15	552,524.88	-	-	-	-	-	-	46,152,884.03
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	610,565.24	-	-	-	-	-	-	15,133,211.66
Electric Transmission	22,387,639.10	185,331.93	-	-	-	-	(400,908.60)	-	22,172,062.43
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	1,350,767.66	-	-	-	-	(400,908.60)	-	84,273,585.62
Total Reserves									
Electric Distribution	(541,357,171.04)	(8,224,838.64)	7,682.20	-	-	4,115.05	-	-	(549,570,212.43)
Electric Distribution - ARO	(6,386.40)	(45.66)	-	-	-	-	-	-	(6,432.06)
Electric General Plant	(53,705,999.58)	(1,242,720.68)	5,414,369.00	-	-	40,145.78	-	-	(49,494,205.48)
Electric Hydro Production	(8,214,917.89)	(30,083.08)	-	(107,147.41)	-	-	-	-	(8,352,148.38)
Electric Hydro Production - ARO	(1,811.92)	(12.96)	-	-	-	-	-	-	(1,824.88)
Electric Other Production	(131,124,448.85)	(4,265,742.02)	-	(1,982,624.74)	-	-	-	-	(137,372,815.61)
Electric Other Production - ARO	(32,068.56)	(610.71)	-	-	-	-	-	-	(32,679.27)
Electric Steam Production	(975,794,069.15)	(15,434,297.27)	2,186,759.69	(5,406,337.81)	-	523,737.03	-	-	(993,924,207.51)
Electric Steam Production - ARO	(4,615,135.75)	(73,536.84)	-	(2,024.05)	-	-	-	-	(4,690,696.64)
Electric Transmission	(326,855,242.03)	(2,857,530.49)	1,811,735.73	7,496,109.96	-	1,338,345.02	(400,908.60)	-	(319,467,490.41)
Electric Transmission - ARO	(4,580.08)	(36.15)	-	2,024.05	-	-	-	-	(2,592.18)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(32,129,454.50)	9,420,546.62	(0.00)	-	1,906,342.88	(400,908.60)	-	(2,062,915,304.85)
Retirement Work In Process									
Electric	11,271,917.81	-	-	-	(1,505,434.28)	4,326,407.59	(181,082.19)	189,304.06	14,101,112.99
	11,271,917.81	-	-	-	(1,505,434.28)	4,326,407.59	(181,082.19)	189,304.06	14,101,112.99
YTD Activity	(2,030,439,913.44)	(32,129,454.50)	9,420,546.62	(0.00)	(1,505,434.28)	6,232,750.47	(581,990.79)	189,304.06	(2,048,814,191.86)
Amortization									
Electric	(22,052,247.99)	(1,127,747.79)	11,470,084.09	-	-	-	-	-	(11,709,911.69)
	(22,052,247.99)	(1,127,747.79)	11,470,084.09	-	-	-	-	-	(11,709,911.69)
Depreciation & Amortization Total	(2,052,492,161.43)	(33,257,202.29)	20,890,630.71	(0.00)	(1,505,434.28)	6,232,750.47	(581,990.79)	189,304.06	(2,060,524,103.55)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,689,111,803.09

April 22, 2009

KU Monthly Report to KPSC – February 28, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

February 28, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
February 28, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
February 28, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	119,980,660.74	117,178,359.45	2,802,301.29	2.39
Total Operating Revenues	119,980,660.74	117,178,359.45	2,802,301.29	2.39
Fuel for Electric Generation	37,270,222.07	40,972,369.29	(3,702,147.22)	(9.04)
Power Purchased	21,373,628.80	19,059,494.48	2,314,134.32	12.14
Other Operation Expenses	28,836,974.73	14,231,017.54	14,605,957.19	102.63
Maintenance	40,059,251.04	8,543,312.31	31,515,938.73	368.90
Depreciation	9,888,397.00	10,005,955.38	(117,558.38)	(1.17)
Amortization Expense	377,441.78	375,830.15	1,611.63	0.43
Regulatory Credits	(196,501.63)	(189,735.86)	(6,765.77)	3.57
Taxes				
Federal Income	(8,066,155.63)	5,518,905.15	(13,585,060.78)	(246.16)
State Income	(1,471,031.42)	1,061,327.92	(2,532,359.34)	(238.60)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	1,839,723.38	1,769,591.35	70,132.03	3.96
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	171,752.67	165,157.94	6,594.73	3.99
Total Operating Expenses	130,083,702.79	101,513,225.65	28,570,477.14	28.14
Net Operating Income	(10,103,042.05)	15,665,133.80	(25,768,175.85)	(164.49)
Other Income Less Deductions				
Other Income Less Deductions	288,489.11	2,191,981.87	(1,903,492.76)	(86.84)
AFUDC - Equity	597,927.01	473,622.29	124,304.72	26.25
Total Other Income Less Deductions	886,416.12	2,665,604.16	(1,779,188.04)	(66.75)
Income Before Interest Charges	(9,216,625.93)	18,330,737.96	(27,547,363.89)	(150.28)
Interest on Long-term Debt	5,816,775.69	5,356,710.38	460,065.31	8.59
Amortization of Debt Expense - Net	66,709.61	60,437.12	6,272.49	10.38
Other Interest Expenses	130,144.99	172,582.16	(42,437.17)	(24.59)
AFUDC - Borrowed Funds	(179,067.78)	(161,751.50)	(17,316.28)	10.71
Total Interest Charges	5,834,562.51	5,427,978.16	406,584.35	7.49
Net Income	(15,051,188.44)	12,902,759.80	(27,953,948.24)	(216.65)

March 26, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
February 28, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	252,509,634.30	241,261,927.58	11,247,706.72	4.66
Total Operating Revenues	252,509,634.30	241,261,927.58	11,247,706.72	4.66
Fuel for Electric Generation	82,636,332.44	84,663,728.86	(2,027,396.42)	(2.39)
Power Purchased	44,444,383.85	37,195,413.51	7,248,970.34	19.49
Other Operation Expenses	43,427,305.86	26,284,205.81	17,143,100.05	65.22
Maintenance	50,471,027.45	13,459,173.33	37,011,854.12	274.99
Depreciation	21,829,926.13	20,304,328.05	1,525,598.08	7.51
Amortization Expense	841,880.35	761,977.80	79,902.55	10.49
Regulatory Credits	(392,105.12)	(379,471.72)	(12,633.40)	3.33
Taxes				
Federal Income	(1,851,508.85)	14,290,939.04	(16,142,447.89)	(112.96)
State Income	(275,907.04)	2,748,257.52	(3,024,164.56)	(110.04)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	3,677,326.94	3,436,831.54	240,495.40	7.00
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	342,607.27	330,315.88	12,291.39	3.72
Total Operating Expenses	245,151,269.28	203,095,699.62	42,055,569.66	20.71
Net Operating Income	7,358,365.02	38,166,227.96	(30,807,862.94)	(80.72)
Other Income Less Deductions				
Other Income Less Deductions	3,011,057.46	3,976,862.82	(965,805.36)	(24.29)
AFUDC - Equity	1,174,767.24	873,871.07	300,896.17	34.43
Total Other Income Less Deductions	4,185,824.70	4,850,733.89	(664,909.19)	(13.71)
Income Before Interest Charges	11,544,189.72	43,016,961.85	(31,472,772.13)	(73.16)
Interest on Long-term Debt	11,641,390.53	10,862,799.34	778,591.19	7.17
Amortization of Debt Expense - Net	133,104.38	120,874.24	12,230.14	10.12
Other Interest Expenses	302,779.09	375,778.19	(72,999.10)	(19.43)
AFUDC - Borrowed Funds	(351,820.47)	(300,781.03)	(51,039.44)	16.97
Total Interest Charges	11,725,453.53	11,058,670.74	666,782.79	6.03
Net Income	(181,263.81)	31,958,291.11	(32,139,554.92)	(100.57)

March 26, 2009

Kentucky U[illegible]es Company
Comparative Statement of Income
February 28, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,415,289,759.97	1,291,951,646.68	123,338,113.29	9.55
Total Operating Revenues	1,415,289,759.97	1,291,951,646.68	123,338,113.29	9.55
Fuel for Electric Generation	510,372,074.32	464,486,296.77	45,885,777.55	9.88
Power Purchased	228,425,738.64	175,954,145.41	52,471,593.23	29.82
Other Operation Expenses	184,055,327.69	155,656,906.13	28,398,421.56	18.24
Maintenance	125,790,646.60	89,807,426.27	35,983,220.33	40.07
Depreciation	132,640,607.17	117,604,385.48	15,036,221.69	12.79
Amortization Expense	5,309,558.40	5,310,333.26	(774.86)	(0.01)
Regulatory Credits	(2,289,182.11)	(2,176,211.91)	(112,970.20)	5.19
Taxes				
Federal Income	27,042,180.92	26,554,118.77	488,062.15	1.84
State Income	7,029,569.37	12,331,082.84	(5,301,513.47)	(42.99)
Deferred Federal Income - Net	(10,193,508.02)	(6,360,163.38)	(3,833,344.64)	60.27
Deferred State Income - Net	(3,158,868.86)	(488,065.68)	(2,670,803.18)	547.22
Property and Other	20,901,589.72	18,612,086.36	2,289,503.36	12.30
Investment Tax Credit	25,266,897.97	42,566,647.00	(17,299,749.03)	(40.64)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,993,866.75	1,881,206.48	112,660.27	5.99
Total Operating Expenses	1,252,603,392.01	1,101,033,342.29	151,570,049.72	13.77
Net Operating Income	162,686,367.96	190,918,304.39	(28,231,936.43)	(14.79)
Other Income Less Deductions				
Other Income Less Deductions	28,415,384.61	29,663,192.93	(1,247,808.32)	(4.21)
AFUDC - Equity	6,341,864.73	3,863,705.11	2,478,159.62	64.14
Total Other Income Less Deductions	34,757,249.34	33,526,898.04	1,230,351.30	3.67
Income Before Interest Charges	197,443,617.30	224,445,202.43	(27,001,585.13)	(12.03)
Interest on Long-term Debt	69,109,146.41	51,409,344.72	17,699,801.69	34.43
Amortization of Debt Expense - Net	755,800.66	795,650.81	(39,850.15)	(5.01)
Other Interest Expenses	4,552,166.24	7,112,872.67	(2,560,706.43)	(36.00)
AFUDC - Borrowed Funds	(2,099,507.85)	(1,160,586.02)	(938,921.83)	80.90
Total Interest Charges	72,317,605.46	58,157,282.18	14,160,323.28	24.35
Net Income	125,126,011.84	166,287,920.25	(41,161,908.41)	(24.75)

March 26, 2009

Kentucky Utilities Company
Analysis of Retained Earnings
February 28, 2009

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance at Beginning of Period..............................	1,188,134,297.65	21,698,243.75	1,174,207,029.97	20,755,586.80	1,050,005,208.32	19,650,132.80
Add:						
Net Income for Period..................................	(15,051,188.44)		(181,263.81)		125,126,011.84	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc...	(1,423,912.60)	1,423,912.60	(2,366,569.55)	2,366,569.55	(25,972,023.55)	25,972,023.55
Dividends Received Current Year -EE Inc...	5,850,000.00	(5,850,000.00)	5,850,000.00	(5,850,000.00)	28,350,000.00	(28,350,000.00)
Balance at End of Period......................................	1,177,509,196.61	17,272,156.35	1,177,509,196.61	17,272,156.35	1,177,509,196.61	17,272,156.35

Deferred Taxes Related to Undistributed Subsidiary Earnings	Current Month	Year to Date	Year Ended Current Month
Balance of Undistributed Subsidiary Earnings............	17,272,156.35	17,272,156.35	17,272,156.35
Statutory Tax Rate...	38.9%	38.9%	38.9%
Deferred Taxes on Equity in Subsidiary.....................	6,718,868.82	6,718,868.82	6,718,868.82

Combined Balance of Retained Earnings	12 MONTHS 2/28/2009	12 MONTHS 2/29/2008
Retained Earnings at Beginning of Period.....................	1,069,655,341.12	903,012,259.87
Net Income..	125,126,011.84	166,287,920.25
FIN 48 Adjustment..	-	355,161.00
Retained Earnings at End of Period...........................	1,194,781,352.96	1,069,655,341.12

March 26, 2009

Kentucky [illegible]s Company

Comparative Balance Sheets as of February 28, 2009 and February 29, 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,707,219,843.51	5,037,085,170.98
Less Reserves for Depreciation and Amortization	2,053,680,551.97	1,951,297,869.84
Total	3,653,539,291.54	3,085,787,301.14
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	179,120.94
Investments in Subsidiary Companies	18,567,956.35	20,945,932.80
Special Funds	6,120,291.85	5,980,884.83
Other	411,140.00	411,140.00
Total	25,528,509.14	27,767,078.57
Current and Accrued Assets		
Cash	1,514,140.52	3,937,165.05
Special Deposits	7,761,188.72	6,135,444.77
Temporary Cash Investments	214.89	17,602.44
Accounts Receivable-Less Reserve	179,456,944.40	171,427,728.01
Accounts Receivable from Associated Companies	7,661.73	57,285.73
Materials and Supplies-At Average Cost		
Fuel	69,896,489.79	40,174,765.68
Plant Materials and Operating Supplies	29,629,050.58	27,811,764.20
Stores Expense	6,237,056.75	6,350,194.13
Allowance Inventory	74,369.71	299,115.23
Prepayments	5,215,461.16	4,790,668.98
Miscellaneous Current and Accrued Assets	4,240,476.98	12,813.18
Total	304,033,055.23	261,014,547.40
Deferred Debits and Other		
Unamortized Debt Expense	4,725,324.44	7,233,012.92
Unamortized Loss on Bonds	13,345,458.45	10,100,910.95
Accumulated Deferred Income Taxes	51,429,665.42	50,753,515.51
Deferred Regulatory Assets	186,124,012.95	82,479,591.11
Other Deferred Debits	77,815,486.78	59,206,280.54
Total	333,439,948.04	209,773,311.03
Total Assets and Other Debits	4,316,540,803.95	3,584,342,238.14

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	240,711,597.00	90,000,000.00
Retained Earnings	1,177,509,196.61	1,050,005,208.32
Unappropriated Undistributed Subsidiary Earnings	17,272,156.35	19,650,132.80
Total Common Equity	1,743,311,638.65	1,467,474,029.81
Pollution Control Bonds	350,779,405.00	332,753,140.00
LT Notes Payable to Associated Companies	1,181,000,000.00	931,000,000.00
Total Long-term Debt	1,531,779,405.00	1,263,753,140.00
Total Capitalization	3,275,091,043.65	2,731,227,169.81
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	29,250,954.00	48,000,454.00
Accounts Payable	238,378,863.01	148,818,616.71
Accounts Payable to Associated Companies	24,475,631.62	22,157,431.76
Customer Deposits	21,216,402.76	19,739,637.76
Taxes Accrued	4,177,345.40	22,856,683.42
Interest Accrued	16,508,229.66	14,240,238.12
Miscellaneous Current and Accrued Liabilities	10,810,018.53	9,417,124.35
Total	344,817,444.98	285,230,186.12
Deferred Credits and Other		
Accumulated Deferred Income Taxes	327,948,792.89	333,296,780.67
Investment Tax Credit	79,932,008.29	54,946,726.32
Regulatory Liabilities	34,772,711.98	38,418,264.12
Customer Advances for Construction	2,366,779.00	2,763,153.05
Asset Retirement Obligations	32,908,717.41	30,645,375.14
Other Deferred Credits	25,199,567.38	16,218,990.04
Miscellaneous Long-term Liabilities	2,592,339.78	3,723,414.30
Accum Provision for Postretirement Benefits	190,911,398.59	87,872,178.57
Total	696,632,315.32	567,884,882.21
Total Liabilities and Other Credits	4,316,540,803.95	3,584,342,238.14

March 26, 2009

Kentucky U[illegible]s Company
Statement of Capitalization and Short-term Debt
February 28, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			240,711,597.00		
Retained Earnings			1,177,509,196.61		
Unappropriated Undistributed Subsidiary Earnings			17,272,156.35		
Total Common Equity			1,743,311,638.65	52.76	53.23
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.61	10.71
Total Pollution Control Bonds - Net of Reacquired Bonds			350,779,405.00	10.61	10.71
Long-term Notes Payable to Associated Companies			1,181,000,000.00	35.74	36.06
Total Capitalization			3,275,091,043.65	99.11	100.00
Short-term Notes Payable to Associated Companies			29,250,954.00	0.89	
Total Capitalization and Short-term Debt			3,304,341,997.65	100.00	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
February 28, 2009

·nt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,707,219,843.51	5,707,219,843.51
Reserves for Depreciation and Amortization		(2,053,680,551.97)
Depreciation	(2,041,836,365.07)	
Amortization of Plant	(11,844,186.90)	
Investments		25,528,509.14
Investments in Subsidiary Companies	18,567,956.35	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,417,594.06	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
Ally	411,140.00	
OMU - Revenue and Investments Interest on Purchase Power	314,633.16	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	1,514,140.52	1,514,140.52
Special Deposits		7,761,188.72
Restricted Cash	7,761,188.72	
Temporary Cash Investments	214.89	214.89
ınts Receivable - Less Reserve		179,456,944.40
Customers - Active	102,173,241.80	
Unbilled Revenues	55,922,000.00	
Interest and Dividends Receivable	5,906,714.71	
Wholesale Sales	4,376,603.39	
IMPA	4,298,990.66	
IMEA	4,045,323.49	
Transmission Sales	743,954.72	
Damage Claims	138,411.23	
Employee Computer Loans	54,833.80	
Working Funds	32,367.13	
Electricity Swaps	2,652.49	
Other	4,750,483.73	
Reserves for Uncollectible Accounts		
Utility Customers		
LEM Reserve	(1,899,069.79)	
Reserve	(1,081,207.00)	
Accrual	(536,896.04)	
Recoveries	(188,293.93)	
Charged Off	725,190.01	
A/R Miscellaneous	(8,356.00)	
Accounts Receivable from Associated Companies		7,661.73
E.ON US Services/Louisville Gas and Electric Company	7,661.73	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
February 28, 2009

nt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		69,896,489.79
Coal 1,055,291.49 Tons @ $61.19 MMBtu 24,835,467.28 @ 260.00¢	64,572,462.00	
Fuel Oil 2,396,676 Gallons @ 218.69¢	5,241,268.56	
Gas Pipeline 12,772.40 Mcf @ $6.48	82,759.23	
Plant Materials and Operating Supplies		29,629,050.58
Regular Materials and Supplies	28,863,572.89	
Limestone 90,799.36 Tons @ $8.43	765,477.69	
Stores Expense Undistributed	6,237,056.75	6,237,056.75
Allowance Inventory	74,369.71	74,369.71
Prepayments		5,215,461.16
Insurance	2,858,410.00	
Taxes	597,583.61	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	18,738.65	
Other	1,665,728.90	
Miscellaneous Current Assets		4,240,476.98
Derivative Asset - Non-Hedging	4,240,476.98	
Unamortized Debt Expense		4,725,324.44
Carroll County 2002 Series A due 02/01/32 Var%	93,972.34	
Carroll County 2002 Series B due 02/01/32 Var%	65,321.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	26,218.40	
Mercer County 2002 Series A due 02/01/32 Var%	72,717.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,717,766.19	
Carroll County 2006 Series B due 10/01/34 Var%	1,149,535.76	
Carroll County 2007 Series A due 02/01/26 Var%	563,817.09	
Trimble County 2007 Series A due 03/01/37 Var%	434,855.12	
Carroll County 2008 Series A due 02/01/32 Var%	601,120.81	
Unamortized Loss on Bonds	13,345,458.45	13,345,458.45
Accumulated Deferred Income Taxes		51,429,665.42
Federal	43,394,288.44	
State	8,035,376.98	
Regulatory Assets		186,124,012.95
Pension and Postretirement Benefits	126,832,090.11	
Asset Retirement Obligations	28,263,421.78	
MISO Exit Fee	12,355,390.24	
SFAS 109 - Deferred Taxes	10,207,179.55	
FERC Jurisdictional Pension Expense	2,871,345.04	
2008 Wind Storm	2,189,223.35	
EKPC FERC Transmission Cost	1,673,485.26	
Rate Case Expenses	1,338,013.85	
2003 Ice Storm Expenses	263,850.00	
KCCS Funding	130,013.77	
Other Deferred Debits	77,815,486.78	77,815,486.78
l Assets and Other Debits	4,316,540,803.95	4,316,540,803.95

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
February 28, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,743,311,638.65
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	240,711,597.00	
Retained Earnings	1,177,509,196.61	
Unappropriated Undistributed Subsidiary Earnings	17,272,156.35	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,181,000,000.00	1,181,000,000.00
Short-term Notes Payable to Associated Companies	29,250,954.00	29,250,954.00
Accounts Payable		238,378,863.01
Regular	226,531,698.87	
TIA	5,149,807.13	
Tax Collections - Payable	3,947,763.59	
Salaries and Wages Accrued	2,797,255.15	
Employee Withholdings Payable	(47,661.73)	
Accounts Payable to Associated Companies		24,475,631.62
E.ON US Services/Louisville Gas and Electric Company	24,475,631.62	
Customers' Deposits	21,216,402.76	21,216,402.76
T [illegible] Accrued	4,177,345.40	4,177,345.40
Interest Accrued		16,508,229.66
Mercer County 2000 Series A due 05/01/23 Var%	6,679.66	
Carroll County 2002 Series A due 02/01/32 Var%	10,723.05	
Carroll County 2002 Series B due 02/01/32 Var%	1,229.58	
Muhlenburg County 2002 Series A due 02/01/32 Var%	1,229.58	
Mercer County 2002 Series A due 02/01/32 Var%	3,791.23	
Carroll County 2002 Series C due 10/01/32 Var%	60,330.64	
Carroll County 2004 Series A due 10/01/34 Var%	27,465.74	
Carroll County 2006 Series B due 10/01/34 Var%	31,305.21	
Carroll County 2007 Series A due 02/01/26 Var%	256,953.13	
Trimble County 2007 Series A due 03/01/37 Var%	133,905.00	
Carroll County 2008 Series A due 02/01/32 Var%	45,380.36	
Fidelia	15,683,678.98	
Customers' Deposits	167,578.75	
Other	77,978.75	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
February 28, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		10,810,018.53
Vacation Pay Accrued	5,186,626.88	
Franchise Fee Payable	3,434,797.67	
Customer Overpayments	1,298,852.31	
Derivative Liabilities - Non-Hedging	646,916.55	
Other	242,825.12	
Accumulated Deferred Income Taxes		327,948,792.89
Federal	283,652,015.69	
State	44,296,777.20	
Investment Tax Credit		79,932,008.29
Advance Coal Credit	79,833,544.97	
Job Development Credit	98,463.32	
Regulatory Liabilities		34,772,711.98
Deferred Taxes	25,949,954.21	
Asset Retirement Obligations	3,944,411.29	
MISO Schedule 10 Charges	3,419,176.12	
Spare Parts	1,459,170.36	
Customers' Advances for Construction		2,366,779.00
Line Extensions	1,391,346.20	
istomer Advances	920,868.40	
Outdoor Lighting Deposits	3,795.90	
Other	50,768.50	
Asset Retirement Obligations	32,908,717.41	32,908,717.41
Other Deferred Credits	25,199,567.38	25,199,567.38
Miscellaneous Long-term Liabilities		2,592,339.78
Workers' Compensation	2,592,339.78	
Accumulated Provision for Benefits		190,911,398.59
Pension Payable	123,549,944.00	
Postretirement Benefits - SFAS 106	67,477,264.59	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(258,069.00)	
Medicare Subsidy - SFAS 106	(5,601,259.00)	
Total Liabilities and Other Credits	4,316,540,803.95	4,316,540,803.95

March 26, 2009

Kentucky Utilities Company
Statement of Cash Flows
February 28, 2009

	Year to Date	
	2009	2008
Cash Flows from Operating Activities		
Net income	(181,263.81)	31,958,291.11
Items not requiring (providing) cash currently:		
Depreciation	21,829,926.13	20,304,328.05
Amortization	841,880.35	761,977.80
Investment tax credit - net	-	(52,386.00)
Other	1,675,949.45	999,246.92
Change in receivables	(2,252,493.23)	17,265,294.00
Change in inventory	2,709,435.72	1,258,737.84
Change in allowance inventory	49.57	83,778.88
Change in payables and accrued expenses	66,951,508.09	(12,066,442.79)
Change in regulatory assets	2,906,405.77	(314,340.49)
Change in regulatory liabilities	(5,710,570.62)	697,228.04
Change in other deferred debits	(3,477,076.95)	4,955,502.03
Change in other deferred credits	3,490,488.06	2,782,846.44
Other	(2,665,222.60)	2,127,858.21
Less: Allowance for other funds used during construction	(1,526,587.71)	(1,174,652.10)
Undistributed earnings of subsidiary company	3,483,430.45	1,556,935.20
Net cash provided (used) by operating activities	88,075,858.67	71,144,203.14
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(102,579,532.93)	(98,269,883.70)
Less: Allowance for other funds used during construction	1,526,587.71	1,174,652.10
Gain (Loss) on disposal of property	-	1,175.00
Change in long-term investments	(122,460.50)	(65,000.76)
Change in long-term non-hedging derivative liability	(2,375,392.02)	-
Change in restricted cash	1,748,819.94	4,850,111.01
Net cash provided (used) by investing activities	(101,801,977.80)	(92,308,946.35)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	(176,384.12)	-
Net change in short-term debt	13,003,500.00	24,781,000.00
Net cash provided (used) by financing activities	12,827,115.88	24,781,000.00
Net Increase (Decrease) in Cash and Cash Equivalents	(899,003.25)	3,616,256.79
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
C nd Cash Equivalents at End of Period	1,514,355.41	3,954,767.49

March 26, 2009

Kentucky U[illegible]s Company
Analysis of Interest Charges
February 28, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	-	-	-	-	(0.01)
Mercer County 2000 Series A due 05/01/23 Var%	7,227.53	58,677.08	14,296.02	108,754.16	200,679.94	108,754.16
Carroll County 2002 Series A due 02/01/32 Var%	18,598.48	35,858.02	40,792.90	98,354.33	326,590.93	752,597.35
Carroll County 2002 Series B due 02/01/32 Var%	2,132.65	4,111.77	4,677.64	11,278.09	37,449.52	86,298.77
Muhlenburg County 2002 Series A due 02/01/32 Var%	2,132.65	4,111.77	4,677.64	11,278.09	37,449.52	86,298.77
Mercer County 2002 Series A due 02/01/32 Var%	6,575.67	12,677.94	14,422.72	34,774.10	115,469.35	266,087.91
Carroll County 2002 Series C due 10/01/32 Var%	52,789.33	341,224.00	93,954.66	698,317.33	2,957,973.32	3,906,578.67
Carroll County 2004 Series A due 10/01/34 Var%	28,424.66	180,937.50	57,328.77	386,909.72	1,220,781.65	2,032,222.23
Carroll County 2005 Series A due 06/01/35 Var%	-	47,445.19	-	95,980.12	347,873.53	527,870.20
Carroll County 2005 Series B due 06/01/35 Var%	-	46,155.35	-	94,690.28	348,206.31	518,508.51
Carroll County 2006 Series A due 06/01/36 Var%	-	61,418.61	-	144,909.90	687,051.44	699,815.11
Carroll County 2006 Series C due 06/01/36 Var%	-	66,482.34	-	149,973.63	188,366.38	704,269.02
Carroll County 2006 Series B due 10/01/34 Var%	32,340.82	203,850.00	69,696.99	418,125.00	2,536,735.68	2,180,798.84
Carroll County 2007 Series A due 02/01/26 Var%	85,651.05	66,733.33	171,302.09	148,094.37	1,008,894.81	593,345.73
Trimble County 2007 Series A due 03/01/37 Var%	44,635.00	33,327.47	89,270.00	73,960.20	524,250.50	296,230.09
Carroll County 2008 Series A due 02/01/32 Var%	45,380.34	-	99,196.08	-	424,615.83	-
Fidelia	5,490,887.51	4,193,700.01	10,981,775.02	8,387,400.02	58,146,757.70	38,922,883.21
Hardin Promissory Note	-	-	-	-	-	(273,213.84)
Total	5,816,775.69	5,356,710.38	11,641,390.53	10,862,799.34	69,109,146.41	51,409,344.72
Amortization of Debt Expense - Net						
Amortization of Debt Expense	16,974.26	24,059.12	33,773.25	48,118.24	235,966.29	312,930.91
Amortization of Loss on Reacquired Debt	49,735.35	36,378.00	99,331.13	72,756.00	519,834.37	482,719.90
Total	66,709.61	60,437.12	133,104.38	120,874.24	755,800.66	795,650.81
Other Interest Charges						
Customers' Deposits	87,979.61	89,201.10	221,586.99	178,385.71	1,195,406.74	1,112,899.60
Other Tax Deficiencies	-	-	-	-	19,417.70	(2,967.92)
Interest on DSM Cost Recovery	7,111.28	-	13,677.18	-	48,963.05	-
Interest on Debt to Associated Companies	7,720.76	83,381.06	31,564.00	197,392.48	2,141,428.08	6,002,639.70
AFUDC Borrowed Funds	(179,067.78)	(161,751.50)	(351,820.47)	(300,781.03)	(2,099,507.85)	(1,160,586.02)
Other Interest Expense	27,333.34	-	35,950.92	-	1,146,950.67	301.29
Total	(48,922.79)	10,830.66	(49,041.38)	74,997.16	2,452,658.39	5,952,286.65
Total Interest	5,834,562.51	5,427,978.16	11,725,453.53	11,058,670.74	72,317,605.46	58,157,282.18

March 26, 2009

Kentucky U[illegible]ies Company
Analysis of Taxes Charged
February 28, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	999,171.16	1,025,101.01	1,998,342.32	2,050,202.02
Unemployment	12,722.14	53,641.66	64,723.65	62,359.38
FICA	673,566.81	538,207.43	1,300,780.97	1,014,869.29
Public Service Commission Fee	149,395.89	149,209.73	298,791.78	298,419.46
Federal Income	(8,066,155.63)	5,518,905.15	(1,851,508.85)	14,290,939.04
State Income	(1,471,031.42)	1,061,327.92	(275,907.04)	2,748,257.52
Miscellaneous	4,867.38	3,431.52	14,688.22	10,981.39
Total Charged to Operating Expense	(7,697,463.67)	8,349,824.42	1,549,911.05	20,476,028.10
Taxes Charged to Other Accounts	1,854,313.11	1,621,234.61	2,617,290.07	2,681,144.57
Taxes Accrued on Intercompany Accounts	(234,002.36)	(189,833.05)	(438,099.01)	(365,770.02)
Total Taxes Charged	(6,077,152.92)	9,781,225.98	3,729,102.11	22,791,402.65

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	2,097,786.00	6,415,385.47	2,474,415.77
Unemployment	48,319.14	52,151.73	1,104.07	99,366.80
FICA	553,448.29	1,169,114.58	1,050,962.54	671,600.33
Federal Income	546,249.77	(144,833.44)	-	401,416.33
State Income	10,477.99	(26,413.39)	-	(15,935.40)
Kentucky Sales and Use Tax	577,873.18	569,282.80	632,748.05	514,407.93
Miscellaneous	30,176.34	12,013.83	10,116.53	32,073.64
Totals	8,558,559.95	3,729,102.11	8,110,316.66	4,177,345.40

March 26, 2009

Kentucky Company
Summary of Utility Plant
February 28, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	1,102,647.60	(194.06)	-	1,102,453.54	1,110,544,698.45
Electric General Plant	106,382,748.13	1,517,915.42	(5,349,417.95)	-	(3,831,502.53)	102,551,245.60
Electric Hydro Production	11,831,164.24	-	-	-	-	11,831,164.24
Electric Intangible Plant	26,829,943.42	673,556.16	(11,049,941.44)	-	(10,376,385.28)	16,453,558.14
Electric Other Production	503,050,995.17	-	-	-	-	503,050,995.17
Electric Steam Production	1,715,546,561.48	1,983,110.46	(1,028,244.36)	-	954,866.10	1,716,501,427.58
Electric Transmission	525,624,959.67	2,539,111.13	(389,842.15)	-	2,149,268.98	527,774,228.65
Total 101 Accounts	3,998,708,617.02	7,816,340.77	(17,817,639.96)	-	(10,001,299.19)	3,988,707,317.83
105 Plant Held for Future Use						
Electric						
Electric Distribution	10,137,561.95				-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	5,099,416.65	-	-	5,099,416.65	126,998,732.38
Electric General Plant	2,677,508.16	(1,107,651.42)	-	-	(1,107,651.42)	1,569,856.74
Electric Hydro Production	11,732.37	-	-	-	-	11,732.37
Electric Intangible Plant	1,058,583.09	(28,234.28)	-	-	(28,234.28)	1,030,348.81
Electric Other Production	210,168.91	-	-	-	-	210,168.91
Electric Steam Production	307,830,864.65	(815,864.90)	-	-	(815,864.90)	307,014,999.75
Electric Transmission	3,483,426.89	739,285.91	-	-	739,285.91	4,222,712.80
Total 106 Accounts	437,171,599.80	3,886,951.96	-	-	3,886,951.96	441,058,551.76
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	90,876,240.20	-	-	90,876,240.20	1,267,316,411.97
Total 107001	1,176,440,171.77	90,876,240.20	-	-	90,876,240.20	1,267,316,411.97
Total Plant (Non-CWIP)	4,446,196,899.71	11,703,292.73	(17,817,639.96)	-	(6,114,347.23)	4,440,082,552.48
Total Plant + CWIP	5,622,637,071.48	102,579,532.93	(17,817,639.96)	-	84,761,892.97	5,707,398,964.45
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	102,579,532.93	(17,817,639.96)	-	84,761,892.97	5,707,219,843.51

March 26, 2009

Kentucky Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
February 28, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(4,302,704.82)	194.06	-	-	-	-	-	(391,387,725.61)
Electric Distribution - ARO	(6,386.40)	(30.44)	-	-	-	-	-	-	(6,416.84)
Electric General Plant	(54,006,194.03)	(830,841.68)	5,349,417.95	-	-	-	-	-	(49,487,617.76)
Electric Hydro Production	(7,591,558.65)	(18,622.26)	-	-	-	-	-	-	(7,610,180.91)
Electric Hydro Production - ARO	(1,811.92)	(8.64)	-	-	-	-	-	-	(1,820.56)
Electric Other Production	(130,098,501.03)	(2,764,068.52)	-	-	-	-	-	-	(132,862,569.55)
Electric Other Production - ARO	(32,068.56)	(407.14)	-	-	-	-	-	-	(32,475.70)
Electric Steam Production	(904,811,374.27)	(9,048,304.30)	1,028,244.36	-	-	-	-	-	(912,831,434.21)
Electric Steam Production - ARO	(4,615,135.75)	(49,021.62)	-	-	-	-	-	-	(4,664,157.37)
Electric Transmission	(208,518,367.58)	(1,417,620.83)	389,842.15	-	-	-	-	-	(209,546,146.26)
Electric Transmission - ARO	(4,580.08)	(30.01)	-	-	-	-	-	-	(4,610.09)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(18,431,660.26)	6,767,698.52	-	-	-	-	-	(1,708,435,154.86)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(1,798,216.68)	-	-	-	403.43	-	-	(201,670,128.59)
Electric General Plant	152,325.56	(3,226.36)	-	-	-	9,303.66	-	-	158,402.86
Electric Hydro Production	(669,680.63)	(4,253.50)	-	-	-	-	-	-	(673,934.13)
Electric Other Production	(1,644,839.43)	(73,253.68)	-	-	-	-	-	-	(1,718,093.11)
Electric Steam Production	(85,505,341.30)	(1,760,084.81)	-	-	-	138,526.68	-	-	(87,126,899.43)
Electric Transmission	(140,724,513.55)	(810,116.13)	-	-	-	537,945.06	-	-	(140,996,684.62)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(4,449,151.16)	-	-	-	686,178.83	-	-	(432,027,337.02)
Salvage									
Electric Distribution	45,600,359.15	410,110.03	-	-	-	-	-	-	46,010,469.18
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	371,641.38	-	-	-	-	-	-	14,894,287.80
Electric Transmission	22,387,639.10	141,990.52	-	-	-	-	-	-	22,529,629.62
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	926,087.54	-	-	-	-	-	-	84,249,814.10
Total Reserves									
Electric Distribution	(541,357,171.04)	(5,690,811.47)	194.06	-	-	403.43	-	-	(547,047,385.02)
Electric Distribution - ARO	(6,386.40)	(30.44)	-	-	-	-	-	-	(6,416.84)
Electric General Plant	(53,705,999.58)	(831,919.73)	5,349,417.95	-	-	9,303.66	-	-	(49,179,197.70)
Electric Hydro Production	(8,214,917.89)	(22,678.46)	-	-	-	-	-	-	(8,237,596.35)
Electric Hydro Production - ARO	(1,811.92)	(8.64)	-	-	-	-	-	-	(1,820.56)
Electric Other Production	(131,124,448.85)	(2,837,322.20)	-	-	-	-	-	-	(133,961,771.05)
Electric Other Production - ARO	(32,068.56)	(407.14)	-	-	-	-	-	-	(32,475.70)
Electric Steam Production	(975,794,069.15)	(10,436,747.73)	1,028,244.36	-	-	138,526.68	-	-	(985,064,045.84)
Electric Steam Production - ARO	(4,615,135.75)	(49,021.62)	-	-	-	-	-	-	(4,664,157.37)
Electric Transmission	(326,855,242.03)	(2,085,746.44)	389,842.15	-	-	537,945.06	-	-	(328,013,201.26)
Electric Transmission - ARO	(4,580.08)	(30.01)	-	-	-	-	-	-	(4,610.09)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(21,954,723.88)	6,767,698.52	-	-	686,178.83	-	-	(2,056,212,677.78)
Retirement Work In Process	11,271,917.81	-	-	-	(686,178.83)	4,013,224.17	(147,202.27)	(75,448.16)	14,376,312.72
Electric	11,271,917.81	-	-	-	(686,178.83)	4,013,224.17	(147,202.27)	(75,448.16)	14,376,312.72
YTD Activity	(2,030,439,913.44)	(21,954,723.88)	6,767,698.52	-	(686,178.83)	4,699,403.00	(147,202.27)	(75,448.16)	(2,041,836,365.06)
Amortization	(22,052,247.99)	(841,880.35)	11,049,941.44	-	-	-	-	-	(11,844,186.90)
Electric	(22,052,247.99)	(841,880.35)	11,049,941.44	-	-	-	-	-	(11,844,186.90)
Depreciation & Amortization Total	(2,052,492,161.43)	(22,796,604.23)	17,817,639.96	-	(686,178.83)	4,699,403.00	(147,202.27)	(75,448.16)	(2,053,680,551.96)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,653,539,291.55

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KU Monthly Report to KPSC – January 31, 2009

KENTUCKY UTILITIES COMPANY

Financial Reports

January 31, 2009

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
January 31, 2009

Kentucky \ :es Company
Comparative Statement of Income
January 31, 2009

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	132,528,973.56	124,083,568.13	8,445,405.43	6.81
Total Operating Revenues	132,528,973.56	124,083,568.13	8,445,405.43	6.81
Fuel for Electric Generation	45,366,110.37	43,691,359.57	1,674,750.80	3.83
Power Purchased	23,070,755.05	18,135,919.03	4,934,836.02	27.21
Other Operation Expenses	14,590,331.13	12,053,188.27	2,537,142.86	21.05
Maintenance	10,411,776.41	4,915,861.02	5,495,915.39	111.80
Depreciation	11,941,529.13	10,298,372.67	1,643,156.46	15.96
Amortization Expense	464,438.57	386,147.65	78,290.92	20.27
Regulatory Credits	(195,603.49)	(189,735.86)	(5,867.63)	3.09
Taxes				
Federal Income	6,214,646.78	8,772,033.89	(2,557,387.11)	(29.15)
State Income	1,195,124.38	1,686,929.60	(491,805.22)	(29.15)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	1,837,603.56	1,667,240.19	170,363.37	10.22
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	170,854.60	165,157.94	5,696.66	3.45
Total Operating Expenses	115,067,566.49	101,582,473.97	13,485,092.52	13.28
Net Operating Income	17,461,407.07	22,501,094.16	(5,039,687.09)	(22.40)
Other Income Less Deductions				
Other Income Less Deductions	2,722,568.35	1,784,880.95	937,687.40	52.54
AFUDC - Equity	576,840.23	400,248.78	176,591.45	44.12
Total Other Income Less Deductions	3,299,408.58	2,185,129.73	1,114,278.85	50.99
Income Before Interest Charges	20,760,815.65	24,686,223.89	(3,925,408.24)	(15.90)
Interest on Long-term Debt	5,824,614.84	5,506,088.96	318,525.88	5.79
Amortization of Debt Expense - Net	66,394.77	60,437.12	5,957.65	9.86
Other Interest Expenses	172,634.10	203,196.03	(30,561.93)	(15.04)
AFUDC - Borrowed Funds	(172,752.69)	(139,029.53)	(33,723.16)	24.26
Total Interest Charges	5,890,891.02	5,630,692.58	260,198.44	4.62
Net Income	14,869,924.63	19,055,531.31	(4,185,606.68)	(21.97)

February 20, 2009

Kentucky ι -es Company
Comparative Statement of Income
January 31, 2009

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	132,528,973.56	124,083,568.13	8,445,405.43	6.81
Total Operating Revenues	132,528,973.56	124,083,568.13	8,445,405.43	6.81
Fuel for Electric Generation	45,366,110.37	43,691,359.57	1,674,750.80	3.83
Power Purchased	23,070,755.05	18,135,919.03	4,934,836.02	27.21
Other Operation Expenses	14,590,331.13	12,053,188.27	2,537,142.86	21.05
Maintenance	10,411,776.41	4,915,861.02	5,495,915.39	111.80
Depreciation	11,941,529.13	10,298,372.67	1,643,156.46	15.96
Amortization Expense	464,438.57	386,147.65	78,290.92	20.27
Regulatory Credits	(195,603.49)	(189,735.86)	(5,867.63)	3.09
Taxes				
Federal Income	6,214,646.78	8,772,033.89	(2,557,387.11)	(29.15)
State Income	1,195,124.38	1,686,929.60	(491,805.22)	(29.15)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	1,837,603.56	1,667,240.19	170,363.37	10.22
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	170,854.60	165,157.94	5,696.66	3.45
Total Operating Expenses	115,067,566.49	101,582,473.97	13,485,092.52	13.28
Net Operating Income	17,461,407.07	22,501,094.16	(5,039,687.09)	(22.40)
Other Income Less Deductions				
Other Income Less Deductions	2,722,568.35	1,784,880.95	937,687.40	52.54
AFUDC - Equity	576,840.23	400,248.78	176,591.45	44.12
Total Other Income Less Deductions	3,299,408.58	2,185,129.73	1,114,278.85	50.99
Income Before Interest Charges	20,760,815.65	24,686,223.89	(3,925,408.24)	(15.90)
Interest on Long-term Debt	5,824,614.84	5,506,088.96	318,525.88	5.79
Amortization of Debt Expense - Net	66,394.77	60,437.12	5,957.65	9.86
Other Interest Expenses	172,634.10	203,196.03	(30,561.93)	(15.04)
AFUDC - Borrowed Funds	(172,752.69)	(139,029.53)	(33,723.16)	24.26
Total Interest Charges	5,890,891.02	5,630,692.58	260,198.44	4.62
Net Income	14,869,924.63	19,055,531.31	(4,185,606.68)	(21.97)

February 20, 2009

Kentucky [illegible]s Company
Comparative Statement of Income
January 31, 2009

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,412,487,458.68	1,286,691,123.42	125,796,335.26	9.78
Total Operating Revenues	1,412,487,458.68	1,286,691,123.42	125,796,335.26	9.78
Fuel for Electric Generation	514,074,221.54	465,203,269.38	48,870,952.16	10.51
Power Purchased	226,111,604.32	170,865,199.99	55,246,404.33	32.33
Other Operation Expenses	169,449,370.50	152,986,700.09	16,462,670.41	10.76
Maintenance	94,274,707.87	86,112,162.21	8,162,545.66	9.48
Depreciation	132,758,165.55	116,696,241.88	16,061,923.67	13.76
Amortization Expense	5,307,946.77	5,372,055.37	(64,108.60)	(1.19)
Regulatory Credits	(2,282,416.34)	(2,166,418.39)	(115,997.95)	5.35
Taxes				
Federal Income	40,627,241.70	28,575,545.95	12,051,695.75	42.17
State Income	9,561,928.71	12,961,496.15	(3,399,567.44)	(26.23)
Deferred Federal Income - Net	(10,193,508.02)	(6,360,163.38)	(3,833,344.64)	60.27
Deferred State Income - Net	(3,158,868.86)	(488,065.68)	(2,670,803.18)	547.22
Property and Other	20,831,457.69	18,481,376.24	2,350,081.45	12.72
Investment Tax Credit	25,266,897.97	42,566,647.00	(17,299,749.03)	(40.64)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,987,272.02	1,871,431.60	115,840.42	6.19
Total Operating Expenses	1,224,032,914.87	1,091,970,626.90	132,062,287.97	12.09
Net Operating Income	188,454,543.81	194,720,496.52	(6,265,952.71)	(3.22)
Other Income Less Deductions				
Other Income Less Deductions	30,318,877.37	29,601,898.20	716,979.17	2.42
AFUDC - Equity	6,217,560.01	3,564,303.91	2,653,256.10	74.44
Total Other Income Less Deductions	36,536,437.38	33,166,202.11	3,370,235.27	10.16
Income Before Interest Charges	224,990,981.19	227,886,698.63	(2,895,717.44)	(1.27)
Interest on Long-term Debt	68,649,081.10	50,764,409.82	17,884,671.28	35.23
Amortization of Debt Expense - Net	749,528.17	837,380.64	(87,852.47)	(10.49)
Other Interest Expenses	4,594,603.41	7,294,508.40	(2,699,904.99)	(37.01)
AFUDC - Borrowed Funds	(2,082,191.57)	(1,048,902.18)	(1,033,289.39)	98.51
Total Interest Charges	71,911,021.11	57,847,396.68	14,063,624.43	24.31
Net Income	153,079,960.08	170,039,301.95	(16,959,341.87)	(9.97)

March 26, 2009

Kentucky U ies Company
Analysis of Retained Earnings
January 31, 2009

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance at Beginning of Period	1,174,207,029.97	20,755,586.80	1,174,207,029.97	20,755,586.80	1,032,360,104.32	24,392,477.00
Add:						
Net Income for Period	14,869,924.63		14,869,924.63		153,079,960.08	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc.	(942,656.95)	942,656.95	(942,656.95)	942,656.95	(27,305,766.75)	27,305,766.75
Dividends Received Current Year -EE Inc.	-	-	-	-	30,000,000.00	(30,000,000.00)
Balance at End of Period	1,188,134,297.65	21,698,243.75	1,188,134,297.65	21,698,243.75	1,188,134,297.65	21,698,243.75

Combined Retained Earnings	12 MONTHS 1/31/2009	12 MONTHS 1/31/2008
Retained Earnings at Beginning of Period	1,056,752,581.32	886,358,118.37
Net Income	153,079,960.08	170,039,301.95
FIN 48 Adjustment	-	355,161.00
Retained Earnings at End of Period	1,209,832,541.40	1,056,752,581.32

March 26, 2009

Kentucky [illegible]s Company

Comparative Balance Sheets as of January 31, 2009 and 2008

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,666,380,206.42	4,992,493,769.02
Less Reserves for Depreciation and Amortization	2,064,178,427.90	1,942,102,310.23
Total	3,602,201,778.52	3,050,391,458.79
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	180,295.94
Investments in Subsidiary Companies	22,994,043.75	25,688,277.00
Special Funds	6,059,061.60	5,947,999.25
Other	411,140.00	411,140.00
Total	29,893,366.29	32,477,712.19
Current and Accrued Assets		
Cash	3,073,640.73	3,212,082.40
Special Deposits	9,059,557.94	6,621,781.66
Temporary Cash Investments	13.11	17,552.89
Accounts Receivable-Less Reserve	179,392,332.49	176,960,558.18
Accounts Receivable from Associated Companies	5,536.65	13,428,962.21
Materials and Supplies-At Average Cost		
Fuel	62,957,839.21	41,778,204.71
Plant Materials and Operating Supplies	29,518,432.30	27,414,373.87
Stores Expense	6,128,646.20	6,542,041.79
Allowance Inventory	74,391.44	339,421.31
Prepayments	5,960,013.60	5,417,348.90
Miscellaneous Current and Accrued Assets	3,831,080.12	329,914.34
Total	300,001,483.79	282,062,242.26
Deferred Debits and Other		
Unamortized Debt Expense	4,693,287.18	7,257,072.04
Unamortized Loss on Bonds	13,368,734.70	10,137,288.95
Accumulated Deferred Income Taxes	50,686,899.87	50,753,515.51
Deferred Regulatory Assets	189,156,041.64	82,329,873.40
Other Deferred Debits	75,457,752.18	54,724,025.35
Total	333,362,715.57	205,201,775.25
Total Assets and Other Debits	4,265,459,344.17	3,570,133,188.49

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	240,711,597.00	90,000,000.00
Retained Earnings	1,188,134,297.65	1,032,360,104.32
Unappropriated Undistributed Subsidiary Earnings	21,698,243.75	24,392,477.00
Total Common Equity	1,758,362,827.09	1,454,571,270.01
Pollution Control Bonds	350,779,405.00	332,753,140.00
LT Notes Payable to Associated Companies	1,181,000,000.00	931,000,000.00
Total Long-term Debt	1,531,779,405.00	1,263,753,140.00
Total Capitalization	3,290,142,232.09	2,718,324,410.01
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	39,870,954.00	59,036,454.00
Accounts Payable	158,197,036.35	152,833,670.83
Accounts Payable to Associated Companies	12,815,986.56	10,686,051.44
Customer Deposits	21,138,591.20	19,735,283.57
Taxes Accrued	13,913,246.23	15,664,813.20
Interest Accrued	15,715,607.91	13,918,111.42
Miscellaneous Current and Accrued Liabilities	14,388,784.64	12,556,983.32
Total	276,040,206.89	284,431,367.78
Deferred Credits and Other		
Accumulated Deferred Income Taxes	327,206,027.34	333,296,780.67
Investment Tax Credit	79,941,855.29	54,972,919.32
Regulatory Liabilities	40,831,853.44	38,069,650.10
Customer Advances for Construction	2,405,223.81	2,783,322.27
Asset Retirement Obligations	32,736,964.74	30,480,217.20
Other Deferred Credits	22,646,409.20	16,115,991.84
Miscellaneous Long-term Liabilities	2,595,219.78	3,768,886.19
Accum Provision for Postretirement Benefits	190,913,351.59	87,889,643.11
Total	699,276,905.19	567,377,410.70
Total Liabilities and Other Credits	4,265,459,344.17	3,570,133,188.49

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Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
January 31, 2009

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total: Capital and ST Debt	Percent of Total: Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			240,711,597.00		
Retained Earnings			1,188,134,297.65		
Unappropriated Undistributed Subsidiary Earnings			21,698,243.75		
Total Common Equity			1,758,362,827.09	52.80	53.44
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.53	10.66
Long-term Notes Payable to Associated Companies			1,181,000,000.00	35.47	35.90
Total Capitalization			3,290,142,232.09	98.80	100.00
Short-term Notes Payable to Associated Companies			39,870,954.00	1.20	
Total Capitalization and Short-term Debt			3,330,013,186.09	100.00	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
January 31, 2009

ɹnt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,666,380,206.42	5,666,380,206.42
Reserves for Depreciation and Amortization		(2,064,178,427.90)
Depreciation	(2,041,661,741.34)	
Amortization of Plant	(22,516,686.56)	
Investments		29,893,366.29
Investments in Subsidiary Companies	22,994,043.75	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,405,463.81	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
Ally	411,140.00	
OMU - Revenue and Investments Interest on Purchase Power	265,533.16	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	3,073,640.73	3,073,640.73
Special Deposits		9,059,557.94
Restricted Cash	9,059,557.94	
Temporary Cash Investments	13.11	13.11
unts Receivable - Less Reserve		179,392,332.49
Customers - Active	99,240,732.50	
Unbilled Revenues	64,829,000.00	
Wholesale Sales	4,391,210.22	
IMPA	4,063,184.89	
IMEA	3,823,431.73	
Transmission Sales	492,746.93	
Tax Refunds	485,385.53	
RAR Settlements	300,000.00	
Damage Claims	124,278.43	
Employee Computer Loans	55,351.02	
Interest and Dividends Receivable	55,281.57	
Working Funds	32,367.13	
Other	4,433,908.72	
Reserves for Uncollectible Accounts		
Utility Customers		
Charged Off	298,896.71	
Recoveries	(71,115.70)	
Accrual	(227,780.97)	
Reserve	(1,027,111.00)	
LEM Reserve	(1,899,079.22)	
A/R Miscellaneous	(8,356.00)	
Accounts Receivable from Associated Companies		5,536.65
E.ON US Services/Louisville Gas and Electric Company	5,536.65	

February 20, 2009

Kentucky Utilities Company
Summary Trial Balance
January 31, 2009

ınt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		62,957,839.21
Coal 924,218.51 Tons @ $61.77 MMBtu 21,703,728.39 @ 263.03¢	57,087,514.82	
Fuel Oil 2,621,643 Gallons @ 220.80¢	5,788,582.84	
Gas Pipeline 12,314.40 Mcf @ $6.64	81,741.55	
Plant Materials and Operating Supplies		29,518,432.30
Regular Materials and Supplies	28,843,593.41	
Limestone 83,061.36 Tons @ $8.12	674,838.89	
Stores Expense Undistributed	6,128,646.20	6,128,646.20
Allowance Inventory	74,391.44	74,391.44
Prepayments		5,960,013.60
Insurance	3,197,073.29	
Taxes	746,979.50	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	17,524.48	
Other	1,923,436.33	
Miscellaneous Current Assets		3,831,080.12
Derivative Asset - Non-Hedging	3,831,080.12	
Unamortized Debt Expense		4,693,287.18
Carroll County 2002 Series A due 02/01/32 Var%	94,314.34	
Carroll County 2002 Series B due 02/01/32 Var%	65,559.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	26,313.40	
Mercer County 2002 Series A due 02/01/32 Var%	72,982.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,723,836.04	
Carroll County 2006 Series B due 10/01/34 Var%	1,148,836.13	
Carroll County 2007 Series A due 02/01/26 Var%	566,580.90	
Trimble County 2007 Series A due 03/01/37 Var%	436,145.49	
Carroll County 2008 Series A due 02/01/32 Var%	558,719.15	
Unamortized Loss on Bonds	13,368,734.70	13,368,734.70
Refinanced and Called Bonds		
Accumulated Deferred Income Taxes		50,686,899.87
Federal	43,068,603.83	
State	7,618,296.04	
Regulatory Assets		189,156,041.64
Pension and Postretirement Benefits	126,832,090.11	
Asset Retirement Obligations	28,066,920.15	
MISO Exit Fee	18,555,817.03	
SFAS 109 - Deferred Taxes	10,207,179.55	
FERC Jurisdictional Pension Expense	2,845,424.41	
Wind Storm	2,188,779.62	
2003 Ice Storm Expenses	329,817.00	
KCCS Funding	130,013.77	
Other Deferred Debits	75,457,752.18	75,457,752.18
Assets and Other Debits	4,265,459,344.17	4,265,459,344.17

February 20, 2009

Kentucky Utilities Company
Summary Trial Balance
January 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,758,362,827.09
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	240,711,597.00	
Retained Earnings	1,188,134,297.65	
Unappropriated Undistributed Subsidiary Earnings	21,698,243.75	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,181,000,000.00	1,181,000,000.00
Short-term Notes Payable to Associated Companies	39,870,954.00	39,870,954.00
Accounts Payable		158,197,036.35
Regular	145,485,683.30	
TIA	5,149,807.13	
Tax Collections - Payable	3,830,418.86	
Salaries and Wages Accrued	3,713,995.75	
Employee Withholdings Payable	17,131.31	
Accounts Payable to Associated Companies		12,815,986.56
E.ON US Services/Louisville Gas and Electric Company	12,815,986.56	
Customers' Deposits	21,138,591.20	21,138,591.20
Taxes Accrued	13,913,246.23	13,913,246.23
Interest Accrued		15,715,607.91
Mercer County 2000 Series A due 05/01/23 Var%	6,768.02	
Carroll County 2002 Series A due 02/01/32 Var%	44,388.85	
Carroll County 2002 Series B due 02/01/32 Var%	5,089.97	
Muhlenburg County 2002 Series A due 02/01/32 Var%	5,089.97	
Mercer County 2002 Series A due 02/01/32 Var%	15,694.09	
Carroll County 2002 Series C due 10/01/32 Var%	7,541.31	
Carroll County 2004 Series A due 10/01/34 Var%	27,602.72	
Carroll County 2006 Series B due 10/01/34 Var%	35,210.97	
Carroll County 2007 Series A due 02/01/26 Var%	171,302.08	
Trimble County 2007 Series A due 03/01/37 Var%	89,270.00	
Carroll County 2008 Series A due 02/01/32 Var%	51,573.44	
Fidelia	15,103,141.47	
Customers' Deposits	84,947.55	
Other	67,987.47	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
January 31, 2009

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		14,388,784.64
Franchise Fee Payable	6,210,739.32	
Vacation Pay Accrued	5,186,626.88	
Customer Overpayments	2,029,730.91	
Derivative Liabilities - Non-Hedging	665,212.51	
Other	296,475.02	
Accumulated Deferred Income Taxes		327,206,027.34
Federal	283,326,327.00	
State	43,879,700.34	
Investment Tax Credit		79,941,855.29
Advance Coal Credit	79,833,544.97	
Job Development Credit	108,310.32	
Regulatory Liabilities		40,831,853.44
Deferred Taxes - SFAS 109	25,949,954.21	
MISO Schedule 10 Charges	9,500,332.00	
Asset Retirement Obligations	3,922,396.87	
Spare Parts	1,459,170.36	
Customers' Advances for Construction		2,405,223.81
Line Extensions	1,464,478.54	
Customer Advances	936,949.37	
Outdoor Lighting Deposits	3,795.90	
Asset Retirement Obligations	32,736,964.74	32,736,964.74
Other Deferred Credits	22,646,409.20	22,646,409.20
Miscellaneous Long-term Liabilities		2,595,219.78
Workers' Compensation	2,592,339.78	
Uncertain Tax Positions	2,880.00	
Accumulated Provision for Benefits		190,913,351.59
Pension Payable	123,549,944.00	
Postretirement Benefits - SFAS 106	67,479,217.59	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(258,069.00)	
Medicare Subsidy - SFAS 106	(5,601,259.00)	
Total Liabilities and Other Credits	4,265,459,344.17	4,265,459,344.17

March 26, 2009

Kentucky Utilities Company
Statement of Cash Flows
January 31, 2009

	Year to Date	
	2009	30-Jun-05
Cash Flows from Operating Activities		
Net income	14,869,924.63	19,055,531.31
Items not requiring (providing) cash currently:		
Depreciation	11,941,529.13	10,298,372.67
Amortization	464,438.57	386,147.65
Investment tax credit - net	-	(26,193.00)
Other	890,983.41	239,068.37
Change in receivables	(2,185,756.24)	(1,639,212.65)
Change in inventory	9,867,115.13	(139,158.52)
Change in allowance inventory	27.84	43,472.80
Change in payables and accrued expenses	(12,461,145.96)	(23,855,789.24)
Change in regulatory assets	(125,622.92)	(164,622.78)
Change in regulatory liabilities	348,570.84	348,614.02
Change in other deferred debits	(184,426.03)	10,278,789.59
Change in other deferred credits	937,329.88	2,679,848.24
Other	(547,791.71)	1,892,451.05
Less: Allowance for other funds used during construction	(749,592.92)	(539,278.31)
: Undistributed earnings of subsidiary company	(942,656.95)	(3,185,409.00)
Net cash provided (used) by operating activities	22,122,926.70	15,672,632.20
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(44,176,332.21)	(53,469,444.86)
Less: Allowance for other funds used during construction	749,592.92	539,278.31
Change in long-term investments	(2,008,929.45)	(32,115.18)
Change in restricted cash	450,450.72	4,363,774.12
Net cash provided (used) by investing activities	(44,985,218.02)	(48,598,507.61)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	(100,913.50)	-
Net change in short-term debt	23,623,500.00	35,817,000.00
Net cash provided (used) by financing activities	23,522,586.50	35,817,000.00
Net Increase (Decrease) in Cash and Cash Equivalents	660,295.18	2,891,124.59
Cash and Cash Equivalents at Beginning of Period	2,413,358.66	338,510.70
Cash and Cash Equivalents at End of Period	3,073,653.84	3,229,635.29

February 20, 2009

Kentucky L [illegible] s Company
Analysis of Interest Charges
January 31, 2009

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%..........	-	-	-	-	-	1,224,300.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	-	-	-	-	809,541.38
Mercer County 2000 Series A due 05/01/23 Var%..........	7,068.49	50,077.08	7,068.49	50,077.08	252,129.49	50,077.08
Carroll County 2002 Series A due 02/01/32 Var%..........	22,194.42	62,496.31	22,194.42	62,496.31	343,850.47	776,375.50
Carroll County 2002 Series B due 02/01/32 Var%..........	2,544.99	7,166.32	2,544.99	7,166.32	39,428.64	89,025.36
Muhlenburg County 2002 Series A due 02/01/32 Var%..........	2,544.99	7,166.32	2,544.99	7,166.32	39,428.64	89,025.36
Mercer County 2002 Series A due 02/01/32 Var%..........	7,847.05	22,096.16	7,847.05	22,096.16	121,571.62	274,494.89
Carroll County 2002 Series C due 10/01/32 Var%..........	41,165.33	357,093.33	41,165.33	357,093.33	3,246,407.99	3,830,421.32
Carroll County 2004 Series A due 10/01/34 Var%..........	28,904.11	205,972.22	28,904.11	205,972.22	1,373,294.49	1,991,798.62
Carroll County 2005 Series A due 06/01/35 Var%..........	-	48,534.93	-	48,534.93	395,318.72	517,185.53
Carroll County 2005 Series B due 06/01/35 Var%..........	-	48,534.93	-	48,534.93	394,361.66	508,984.68
Carroll County 2006 Series A due 06/01/36 Var%..........	-	83,491.29	-	83,491.29	748,470.05	685,713.65
Carroll County 2006 Series C due 06/01/36 Var%..........	-	83,491.29	-	83,491.29	254,848.72	685,178.02
Carroll County 2006 Series B due 10/01/34 Var%..........	37,356.17	214,275.00	37,356.17	214,275.00	2,708,244.86	2,008,905.00
Carroll County 2007 Series A due 02/01/26 Var%..........	85,651.04	81,361.04	85,651.04	81,361.04	989,977.09	526,612.40
Trimble County 2007 Series A due 03/01/37 Var%..........	44,635.00	40,632.73	44,635.00	40,632.73	512,942.97	262,902.62
Carroll County 2008 Series A due 02/01/32 Var%..........	53,815.74	-	53,815.74	-	379,235.49	-
Interest Rate Swaps	-	-	-	-	-	(76,780.63)
Marked to Market	-	-	-	-	-	(226,047.00)
Fidelia..........	5,490,887.51	4,193,700.01	5,490,887.51	4,193,700.01	56,849,570.20	36,973,288.21
Hardin Promissory Note..........	-	-	-	-	-	(236,592.17)
Total..........	5,824,614.84	5,506,088.96	5,824,614.84	5,506,088.96	68,649,081.10	50,764,409.82
Amortization of Debt Expense - Net						
Amortization of Debt Expense..........	16,798.99	24,059.12	16,798.99	24,059.12	243,051.15	336,187.74
Amortization of Loss on Reacquired Debt..........	49,595.78	36,378.00	49,595.78	36,378.00	506,477.02	501,192.90
Total..........	66,394.77	60,437.12	66,394.77	60,437.12	749,528.17	837,380.64
Other Interest Charges						
Customers' Deposits..........	133,607.38	89,184.61	133,607.38	89,184.61	1,196,628.23	1,105,072.92
Other Tax Deficiencies..........	-	-	-	-	19,417.70	(2,967.92)
Interest on DSM Cost Recovery..........	6,565.90	-	6,565.90	-	41,851.77	-
Interest on Debt to Associated Companies..........	23,843.24	114,011.42	23,843.24	114,011.42	2,217,088.38	6,192,102.11
AFUDC Borrowed Funds..........	(172,752.69)	(139,029.53)	(172,752.69)	(139,029.53)	(2,082,191.57)	(1,048,902.18)
Other Interest Expense..........	8,617.58	-	8,617.58	-	1,119,617.33	301.29
Total..........	(118.59)	64,166.50	(118.59)	64,166.50	2,512,411.84	6,245,606.22
Total Interest..........	5,890,891.02	5,630,692.58	5,890,891.02	5,630,692.58	71,911,021.11	57,847,396.68

February 20, 2009

Kentucky U[illegible]es Company
Analysis of Taxes Charged
January 31, 2009

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	999,171.16	1,025,101.01	999,171.16	1,025,101.01
Unemployment	52,001.51	8,717.72	52,001.51	8,717.72
FICA	627,214.16	476,661.86	627,214.16	476,661.86
Public Service Commission Fee	149,395.89	149,209.73	149,395.89	149,209.73
Federal Income	6,214,646.78	8,772,033.89	6,214,646.78	8,772,033.89
State Income	1,195,124.38	1,686,929.60	1,195,124.38	1,686,929.60
Miscellaneous	9,820.84	7,549.87	9,820.84	7,549.87
Total Charged to Operating Expense	9,247,374.72	12,126,203.68	9,247,374.72	12,126,203.68
Taxes Charged to Other Accounts	762,976.96	1,059,909.96	762,976.96	1,059,909.96
Taxes Accrued on Intercompany Accounts	(204,096.65)	(175,936.97)	(204,096.65)	(175,936.97)
Total Taxes Charged	9,806,255.03	13,010,176.67	9,806,255.03	13,010,176.67

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,792,015.24	1,048,893.00	3,691,536.18	4,149,372.06
Unemployment	48,319.14	46,047.48	1,104.07	93,262.55
FICA	553,448.29	577,032.00	396,085.26	734,395.03
Federal Income	546,249.77	6,594,721.50	-	7,140,971.27
State Income	10,477.99	1,268,215.69	-	1,278,693.68
Kentucky Sales and Use Tax	577,873.18	270,150.76	362,597.29	485,426.65
Miscellaneous	30,176.34	1,194.60	245.95	31,124.99
Totals	8,558,559.95	9,806,255.03	4,451,568.75	13,913,246.23

March 26, 2009

Kentucky Company
Summary of Utility Plant
January 31, 2009

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,109,442,244.91	1,007,600.63	(194.06)	-	1,007,406.57	1,110,449,651.48
Electric General Plant	106,382,748.13	73,486.41	-	-	73,486.41	106,456,234.54
Electric Hydro Production	11,831,164.24	-	-	-	-	11,831,164.24
Electric Intangible Plant	26,829,943.42	204,631.18	-	-	204,631.18	27,034,574.60
Electric Other Production	503,050,995.17	-	-	-	-	503,050,995.17
Electric Steam Production	1,715,546,561.48	669,903.51	(253,882.27)	-	416,021.24	1,715,962,582.72
Electric Transmission	525,624,959.67	8,803.13	-	-	8,803.13	525,633,762.80
Total 101 Accounts	3,998,708,617.02	1,964,424.86	(254,076.33)	-	1,710,348.53	4,000,418,965.55
105 Plant Held for Future Use						
Electric						
Electric Distribution	10,137,561.95				-	10,137,561.95
Total 105001	10,137,561.95	-	-	-	-	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	121,899,315.73	1,372,793.85	-	-	1,372,793.85	123,272,109.58
Electric General Plant	2,677,508.16	(55,626.04)	-	-	(55,626.04)	2,621,882.12
Electric Hydro Production	11,732.37	-	-	-	-	11,732.37
Electric Intangible Plant	1,058,583.09	(28,234.28)	-	-	(28,234.28)	1,030,348.81
Electric Other Production	210,168.91	-	-	-	-	210,168.91
Electric Steam Production	307,830,864.65	(249,193.31)	-	-	(249,193.31)	307,581,671.34
Electric Transmission	3,483,426.89	5,220.32	-	-	5,220.32	3,488,647.21
Total 106 Accounts	437,171,599.80	1,044,960.54	-	-	1,044,960.54	438,216,560.34
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,176,440,171.77	41,166,946.81	-	-	41,166,946.81	1,217,607,118.58
Total 107001	1,176,440,171.77	41,166,946.81	-	-	41,166,946.81	1,217,607,118.58
Total Plant (Non-CWIP)	4,446,196,899.71	3,009,385.40	(254,076.33)	-	2,755,309.07	4,448,952,208.78
Total Plant + CWIP	5,622,637,071.48	44,176,332.21	(254,076.33)	-	43,922,255.88	5,666,559,327.36
Total Plant + CWIP - Nonutility (BS)	5,622,457,950.54	44,176,332.21	(254,076.33)	-	43,922,255.88	5,666,380,206.42

February 20, 2009

Kentucky Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
January 31, 2009

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(387,085,214.85)	(2,234,610.56)	194.06	-	-	-	-	-	(389,319,631.35)
Electric Distribution - ARO	(6,386.40)	(15.22)	-	-	-	-	-	-	(6,401.62)
Electric General Plant	(54,006,194.03)	(425,214.25)	-	-	-	-	-	-	(54,431,408.28)
Electric Hydro Production	(7,591,558.65)	(11,739.27)	-	-	-	-	-	-	(7,603,297.92)
Electric Hydro Production - ARO	(1,811.92)	(4.32)	-	-	-	-	-	-	(1,816.24)
Electric Other Production	(130,098,501.03)	(1,423,193.68)	-	-	-	-	-	-	(131,521,694.71)
Electric Other Production - ARO	(32,068.56)	(203.57)	-	-	-	-	-	-	(32,272.13)
Electric Steam Production	(904,811,374.27)	(5,000,824.22)	253,882.27	-	-	-	-	-	(909,558,316.22)
Electric Steam Production - ARO	(4,615,135.75)	(24,510.78)	-	-	-	-	-	-	(4,639,646.53)
Electric Transmission	(208,518,367.58)	(767,385.52)	-	-	-	-	-	-	(209,285,753.10)
Electric Transmission - ARO	(4,580.08)	(15.00)	-	-	-	-	-	-	(4,595.08)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,696,771,193.12)	(9,887,716.39)	254,076.33	-	-	-	-	-	(1,706,404,833.18)
Cost of Removal									
Electric Distribution	(199,872,315.34)	(1,194,626.08)	-	-	-	403.43	-	-	(201,066,537.99)
Electric General Plant	152,325.56	-	-	-	-	-	-	-	152,325.56
Electric Hydro Production	(669,680.63)	(4,143.26)	-	-	-	-	-	-	(673,823.89)
Electric Other Production	(1,644,839.43)	-	-	-	-	-	-	-	(1,644,839.43)
Electric Steam Production	(85,505,341.30)	(811,162.17)	-	-	-	45,214.24	-	-	(86,271,289.23)
Electric Transmission	(140,724,513.55)	(628,406.06)	-	-	-	-	-	-	(141,352,919.61)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(428,264,364.69)	(2,638,337.57)	-	-	-	45,617.67	-	-	(430,857,084.59)
Salvage									
Electric Distribution	45,600,359.15	267,966.59	-	-	-	-	-	-	45,868,325.74
Electric General Plant	147,868.89	2,148.31	-	-	-	-	-	-	150,017.20
Electric Hydro Production	46,321.39	197.30	-	-	-	-	-	-	46,518.69
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	14,522,646.42	144,252.11	-	-	-	-	-	-	14,666,898.53
Electric Transmission	22,387,639.10	98,631.56	-	-	-	-	-	-	22,486,270.66
Nonutility Property	-	-	-	-	-	-	-	-	-
	83,323,726.56	513,195.87	-	-	-	-	-	-	83,836,922.43
Total Reserves									
Electric Distribution	(541,357,171.04)	(3,161,270.05)	194.06	-	-	403.43	-	-	(544,517,843.60)
Electric Distribution - ARO	(6,386.40)	(15.22)	-	-	-	-	-	-	(6,401.62)
Electric General Plant	(53,705,999.58)	(423,065.94)	-	-	-	-	-	-	(54,129,065.52)
Electric Hydro Production	(8,214,917.89)	(15,685.23)	-	-	-	-	-	-	(8,230,603.12)
Electric Hydro Production - ARO	(1,811.92)	(4.32)	-	-	-	-	-	-	(1,816.24)
Electric Other Production	(131,124,448.85)	(1,423,193.68)	-	-	-	-	-	-	(132,547,642.53)
Electric Other Production - ARO	(32,068.56)	(203.57)	-	-	-	-	-	-	(32,272.13)
Electric Steam Production	(975,794,069.15)	(5,667,734.28)	253,882.27	-	-	45,214.24	-	-	(981,162,706.92)
Electric Steam Production - ARO	(4,615,135.75)	(24,510.78)	-	-	-	-	-	-	(4,639,646.53)
Electric Transmission	(326,855,242.03)	(1,297,160.02)	-	-	-	-	-	-	(328,152,402.05)
Electric Transmission - ARO	(4,580.08)	(15.00)	-	-	-	-	-	-	(4,595.08)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(2,041,711,831.25)	(12,012,858.09)	254,076.33	-	-	45,617.67	-	-	(2,053,424,995.34)
Retirement Work in Process									
Electric	11,271,917.81	-	-	-	(45,617.67)	572,669.01	(14,582.16)	(21,132.98)	11,763,254.01
	11,271,917.81	-	-	-	(45,617.67)	572,669.01	(14,582.16)	(21,132.98)	11,763,254.01
YTD Activity	(2,030,439,913.44)	(12,012,858.09)	254,076.33	-	(45,617.67)	618,286.68	(14,582.16)	(21,132.98)	(2,041,661,741.33)
Amortization									
Electric	(22,052,247.99)	(464,438.57)	-	-	-	-	-	-	(22,516,686.56)
	(22,052,247.99)	(464,438.57)	-	-	-	-	-	-	(22,516,686.56)
Depreciation & Amortization Total	(2,052,492,161.43)	(12,477,296.66)	254,076.33	-	(45,617.67)	618,286.68	(14,582.16)	(21,132.98)	(2,064,178,427.89)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,569,965,789.11								3,602,201,778.53

February 20, 2009

KU Monthly Report to KPSC – December 31, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

December 31, 2008

Prepared by Regulatory Accounting and Reporting

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Financial and Operating Reports

Kentucky Utilities Company
December 31, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
December 31, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	131,213,065.35	109,330,638.96	21,882,426.39	20.01
Total Operating Revenues	131,213,065.35	109,330,638.96	21,882,426.39	20.01
Fuel for Electric Generation	50,969,274.23	38,732,246.04	12,237,028.19	31.59
Power Purchased	18,450,660.46	14,091,114.31	4,359,546.15	30.94
Other Operation Expenses	15,934,915.72	14,168,917.45	1,765,998.27	12.46
Maintenance	7,219,303.52	8,599,447.45	(1,380,143.93)	(16.05)
Depreciation	11,816,023.84	10,107,998.15	1,708,025.69	16.90
Amortization Expense	462,293.51	416,450.50	45,843.01	11.01
Regulatory Credits	(194,710.23)	(179,667.07)	(15,043.16)	8.37
Taxes				
Federal Income	8,406,629.94	(7,668,751.51)	16,075,381.45	(209.62)
State Income	759,158.67	1,282,886.68	(523,728.01)	(40.82)
Deferred Federal Income - Net	(7,211,460.19)	(1,822,415.97)	(5,389,044.22)	295.71
Deferred State Income - Net	(1,729,460.44)	(362,501.56)	(1,366,958.88)	377.09
Property and Other	1,463,770.62	925,738.25	538,032.37	58.12
Investment Tax Credit	3,347,000.00	13,600,000.00	(10,253,000.00)	(75.39)
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	169,961.30	155,089.06	14,872.24	9.59
Total Operating Expenses	109,863,360.95	92,046,551.78	17,816,809.17	19.36
Net Operating Income	21,349,704.40	17,284,087.18	4,065,617.22	23.52
Other Income Less Deductions				
Other Income Less Deductions	3,454,817.73	3,827,237.19	(372,419.46)	(9.73)
AFUDC - Equity	559,883.16	426,469.30	133,413.86	31.28
Total Other Income Less Deductions	4,014,700.89	4,253,706.49	(239,005.60)	(5.62)
Income Before Interest Charges	25,364,405.29	21,537,793.67	3,826,611.62	17.77
Interest on Long-term Debt	5,824,039.55	5,171,658.49	652,381.06	12.61
Amortization of Debt Expense - Net	66,008.07	60,437.12	5,570.95	9.22
Other Interest Expenses	482,675.79	429,603.30	53,072.49	12.35
AFUDC - Borrowed Funds	(189,115.37)	(122,738.89)	(66,376.48)	54.08
Total Interest Charges	6,183,608.04	5,538,960.02	644,648.02	11.64
Net Income	19,180,797.25	15,998,833.65	3,181,963.60	19.89

March 26, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
December 31, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,404,042,053.25	1,272,548,899.24	131,493,154.01	10.33
Total Operating Revenues	1,404,042,053.25	1,272,548,899.24	131,493,154.01	10.33
Fuel for Electric Generation	512,399,470.74	460,118,684.64	52,280,786.10	11.36
Power Purchased	221,176,768.30	168,443,605.64	52,733,162.66	31.31
Other Operation Expenses	166,912,227.64	152,922,836.36	13,989,391.28	9.15
Maintenance	88,778,792.48	85,242,194.19	3,536,598.29	4.15
Depreciation	131,115,009.09	115,264,164.71	15,850,844.38	13.75
Amortization Expense	5,229,655.85	5,420,544.96	(190,889.11)	(3.52)
Regulatory Credits	(2,276,548.71)	(2,101,203.34)	(175,345.37)	8.35
Taxes				
Federal Income	43,184,628.81	27,762,415.79	15,422,213.02	55.55
State Income	10,053,733.93	13,060,218.03	(3,006,484.10)	(23.02)
Deferred Federal Income - Net	(10,193,508.02)	(6,360,163.38)	(3,833,344.64)	60.27
Deferred State Income - Net	(3,158,868.86)	(488,065.68)	(2,670,803.18)	547.22
Property and Other	20,661,094.32	18,439,076.67	2,222,017.65	12.05
Investment Tax Credit	25,266,897.97	42,566,647.00	(17,299,749.03)	(40.64)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,981,575.36	1,861,362.72	120,212.64	6.46
Total Operating Expenses	1,210,547,822.35	1,081,445,466.80	129,102,355.55	11.94
Net Operating Income	193,494,230.90	191,103,432.44	2,390,798.46	1.25
Other Income Less Deductions				
Other Income Less Deductions	29,381,189.97	28,450,681.68	930,508.29	3.27
AFUDC - Equity	6,040,968.56	3,327,704.85	2,713,263.71	81.54
Total Other Income Less Deductions	35,422,158.53	31,778,386.53	3,643,772.00	11.47
Income Before Interest Charges	228,916,389.43	222,881,818.97	6,034,570.46	2.71
Interest on Long-term Debt	68,330,555.22	48,500,483.57	19,830,071.65	40.89
Amortization of Debt Expense - Net	743,570.52	853,500.52	(109,930.00)	(12.88)
Other Interest Expenses	4,625,165.34	7,521,067.03	(2,895,901.69)	(38.50)
AFUDC - Borrowed Funds	(2,048,468.41)	(955,806.63)	(1,092,661.78)	114.32
Total Interest Charges	71,650,822.67	55,919,244.49	15,731,578.18	28.13
Net Income	157,265,566.76	166,962,574.48	(9,697,007.72)	(5.81)

March 26, 2009

Kentucky U[illegible]s Company
Comparative Statement of Income
December 31, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,404,042,053.25	1,272,548,899.24	131,493,154.01	10.33
Total Operating Revenues	1,404,042,053.25	1,272,548,899.24	131,493,154.01	10.33
Fuel for Electric Generation	512,399,470.74	460,118,684.64	52,280,786.10	11.36
Power Purchased	221,176,768.30	168,443,605.64	52,733,162.66	31.31
Other Operation Expenses	166,912,227.64	152,922,836.36	13,989,391.28	9.15
Maintenance	88,778,792.48	85,242,194.19	3,536,598.29	4.15
Depreciation	131,115,009.09	115,264,164.71	15,850,844.38	13.75
Amortization Expense	5,229,655.85	5,420,544.96	(190,889.11)	(3.52)
Regulatory Credits	(2,276,548.71)	(2,101,203.34)	(175,345.37)	8.35
Taxes				
Federal Income	43,184,628.81	27,762,415.79	15,422,213.02	55.55
State Income	10,053,733.93	13,060,218.03	(3,006,484.10)	(23.02)
Deferred Federal Income - Net	(10,193,508.02)	(6,360,163.38)	(3,833,344.64)	60.27
Deferred State Income - Net	(3,158,868.86)	(488,065.68)	(2,670,803.18)	547.22
Property and Other	20,661,094.32	18,439,076.67	2,222,017.65	12.05
Investment Tax Credit	25,266,897.97	42,566,647.00	(17,299,749.03)	(40.64)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,981,575.36	1,861,362.72	120,212.64	6.46
Total Operating Expenses	1,210,547,822.35	1,081,445,466.80	129,102,355.55	11.94
Net Operating Income	193,494,230.90	191,103,432.44	2,390,798.46	1.25
Other Income Less Deductions				
Other Income Less Deductions	29,381,189.97	28,450,681.68	930,508.29	3.27
AFUDC - Equity	6,040,968.56	3,327,704.85	2,713,263.71	81.54
Total Other Income Less Deductions	35,422,158.53	31,778,386.53	3,643,772.00	11.47
Income Before Interest Charges	228,916,389.43	222,881,818.97	6,034,570.46	2.71
Interest on Long-term Debt	68,330,555.22	48,500,483.57	19,830,071.65	40.89
Amortization of Debt Expense - Net	743,570.52	853,500.52	(109,930.00)	(12.88)
Other Interest Expenses	4,625,165.34	7,521,067.03	(2,895,901.69)	(38.50)
AFUDC - Borrowed Funds	(2,048,468.41)	(955,806.63)	(1,092,661.78)	114.32
Total Interest Charges	71,650,822.67	55,919,244.49	15,731,578.18	28.13
Net Income	157,265,566.76	166,962,574.48	(9,697,007.72)	(5.81)

March 26, 2009

Kentucky Utilities Company
Analysis of Retained Earnings
December 31, 2008

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance at Beginning of Period	1,156,473,654.72	19,308,164.80	1,016,489,982.01	21,207,068.00	1,016,489,982.01	21,207,068.00
Add:						
Net Income for Period	19,180,797.25		157,265,566.76		157,265,566.76	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc.	(1,447,422.00)	1,447,422.00	(29,548,518.80)	29,548,518.80	(29,548,518.80)	29,548,518.80
Dividends Received Current Year -EE Inc.	-	-	30,000,000.00	(30,000,000.00)	30,000,000.00	(30,000,000.00)
Balance at End of Period	1,174,207,029.97	20,755,586.80	1,174,207,029.97	20,755,586.80	1,174,207,029.97	20,755,586.80

Combined Retained Earnings	12 MONTHS 12/31/2008	12 MONTHS 12/31/2007
Retained Earnings at Beginning of Period	1,037,697,050.01	870,379,314.53
Net Income	157,265,566.76	166,962,574.48
FIN 48 Adjustment	-	355,161.00
Retained Earnings at End of Period	1,194,962,616.77	1,037,697,050.01

March 26, 2009

Kentucky [illegible]s Company
Comparative Balance Sheets as of December 31, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,622,457,950.54	4,939,349,138.37
Less Reserves for Depreciation and Amortization	2,052,492,161.43	1,931,454,524.23
Total	3,569,965,789.11	3,007,894,614.14
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	180,295.94
Investments in Subsidiary Companies	22,051,386.80	22,502,868.00
Special Funds	5,997,831.35	5,915,884.07
Other	411,140.00	411,140.00
Total	28,889,479.09	29,260,188.01
Current and Accrued Assets		
Cash	2,413,345.55	321,020.79
Special Deposits	9,510,008.66	10,985,555.78
Temporary Cash Investments	13.11	17,489.91
Accounts Receivable-Less Reserve	164,835,960.43	171,767,245.73
Accounts Receivable from Associated Companies	12,376,152.47	16,983,062.01
Materials and Supplies-At Average Cost		
Fuel	72,708,035.07	41,770,627.77
Plant Materials and Operating Supplies	29,561,689.40	27,370,026.45
Stores Expense	6,202,308.37	6,454,807.63
Allowance Inventory	74,419.28	382,894.11
Prepayments	5,833,903.18	5,293,878.66
Miscellaneous Current and Accrued Assets	1,261,245.92	554,123.63
Total	304,777,081.44	281,900,732.47
Deferred Debits and Other		
Unamortized Debt Expense	4,671,224.43	7,281,131.16
Unamortized Loss on Bonds	13,356,278.72	10,173,666.95
Accumulated Deferred Income Taxes	50,686,899.87	50,753,515.51
Deferred Regulatory Assets	189,030,418.72	82,165,250.62
Other Deferred Debits	77,141,393.99	66,575,299.74
Total	334,886,215.73	216,948,863.98
Total Assets and Other Debits	4,238,518,565.37	3,536,004,398.60

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	240,711,597.00	90,000,000.00
Retained Earnings	1,174,207,029.97	1,016,489,982.01
Unappropriated Undistributed Subsidiary Earnings	20,755,586.80	21,207,068.00
Total Common Equity	1,743,492,902.46	1,435,515,738.70
Pollution Control Bonds	350,779,405.00	332,753,140.00
LT Notes Payable to Associated Companies	1,181,000,000.00	931,000,000.00
Total Long-term Debt	1,531,779,405.00	1,263,753,140.00
Total Capitalization	3,275,272,307.46	2,699,268,878.70
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	16,247,454.00	23,219,454.00
Accounts Payable	166,771,077.14	165,373,890.06
Accounts Payable to Associated Companies	24,709,458.05	38,042,955.52
Customer Deposits	21,057,049.05	19,573,318.28
Taxes Accrued	8,558,559.95	3,633,209.17
Interest Accrued	14,653,836.21	11,932,026.45
Miscellaneous Current and Accrued Liabilities	12,258,283.45	10,909,671.01
Total	264,255,717.85	272,684,524.49
Deferred Credits and Other		
Accumulated Deferred Income Taxes	327,206,027.34	333,296,780.67
Investment Tax Credit	79,951,702.29	54,999,112.32
Regulatory Liabilities	40,483,282.60	37,721,036.08
Customer Advances for Construction	2,430,316.35	2,803,336.61
Asset Retirement Obligations	32,566,110.14	30,315,059.26
Other Deferred Credits	21,709,079.32	13,436,143.60
Miscellaneous Long-term Liabilities	2,595,219.78	3,554,518.72
Accum Provision for Postretirement Benefits	192,048,802.24	87,925,008.15
Total	698,990,540.06	564,050,995.41
Total Liabilities and Other Credits	4,238,518,565.37	3,536,004,398.60

March 26, 2009

Kentucky U[illegible]es Company
Statement of Capitalization and Short-term Debt
December 31, 2008

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total: Capital and ST Debt	Percent of Total: Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			240,711,597.00		
Retained Earnings			1,174,207,029.97		
Unappropriated Undistributed Subsidiary Earnings			20,755,586.80		
Total Common Equity			1,743,492,902.46	52.97	53.23
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
Total Pollution Control Bonds			350,779,405.00	10.66	10.71
Long-term Notes Payable to Associated Companies			1,181,000,000.00	35.88	36.06
Total Capitalization			3,275,272,307.46	99.51	100.00
Short-term Notes Payable to Associated Companies			16,247,454.00	0.49	
Total Capitalization and Short-term Debt			3,291,519,761.46	100.00	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
December 31, 2008

ınt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,622,457,950.54	5,622,457,950.54
Reserves for Depreciation and Amortization		(2,052,492,161.43)
Depreciation	(2,030,439,913.44)	
Amortization of Plant	(22,052,247.99)	
Investments		28,889,479.09
Investments in Subsidiary Companies	22,051,386.80	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,393,333.56	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
OMU - Revenue and Investments Interest on Purchase Power	216,433.16	
Nonutility Property	179,120.94	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	2,413,345.55	2,413,345.55
Special Deposits		9,510,008.66
Restricted Cash	9,041,466.83	
MAN Margin Call	468,541.83	
ıorary Cash Investments	13.11	13.11
Accounts Receivable - Less Reserve		164,835,960.43
Customers - Active	89,223,888.52	
Unbilled Revenues	60,007,000.00	
Wholesale Sales	5,143,733.59	
IMEA	3,204,096.75	
IMPA	2,298,991.57	
Transmission Sales	543,784.14	
Tax Refunds	485,385.53	
RAR Settlements	300,000.00	
Interest and Dividends Receivable	140,086.57	
Damage Claims	120,904.59	
Employee Computer Loans	57,152.46	
Working Funds	32,367.13	
Other	6,157,074.80	
Reserves for Uncollectible Accounts		
Utility Customers		
LEM Reserve	(1,899,079.22)	
Reserve	(971,070.00)	
A/R Miscellaneous	(8,356.00)	
Accounts Receivable from Associated Companies		12,376,152.47
E.ON US Services/Louisville Gas and Electric Company	12,376,152.47	

January 22, 2009

Kentucky Utilities Company
Summary Trial Balance
December 31, 2008

ˌ ɹnt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		72,708,035.07
Coal 1,078,286.04 Tons @ $61.81 MMBtu 25,327,847.33 @ 263.12¢	66,643,877.45	
Fuel Oil 2,720,910 Gallons @ 219.36¢	5,968,684.38	
Gas Pipeline 12,409.90 Mcf @ $7.69	95,473.24	
Plant Materials and Operating Supplies		29,561,689.40
Regular Materials and Supplies	28,867,534.68	
Limestone 87,132.36 Tons @ $7.97	694,154.72	
Stores Expense Undistributed	6,202,308.37	6,202,308.37
Allowance Inventory	74,419.28	74,419.28
Prepayments		5,833,903.18
Insurance	2,641,114.20	
Taxes	896,375.39	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	25,896.39	
Other	2,195,517.20	
Miscellaneous Current Assets		1,261,245.92
Derivative Asset - Non-Hedging	1,261,245.92	
Unamortized Debt Expense		4,671,224.43
Carroll County 2002 Series A due 02/01/32 Var%	94,656.34	
Carroll County 2002 Series B due 02/01/32 Var%	65,797.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	73,247.11	
Mercer County 2002 Series A due 02/01/32 Var%	26,408.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,729,905.89	
Carroll County 2006 Series B due 10/01/34 Var%	1,133,123.18	
Carroll County 2007 Series A due 02/01/26 Var%	569,344.71	
Trimble County 2007 Series A due 03/01/37 Var%	437,435.86	
Carroll County 2008 Series A due 02/01/32 Var%	541,305.32	
Unamortized Loss on Bonds	13,356,278.72	13,356,278.72
Accumulated Deferred Income Taxes		50,686,899.87
Federal	43,068,603.83	
State	7,618,296.04	
Regulatory Assets		189,030,418.72
Pension and Postretirement Benefits	126,832,090.11	
Asset Retirement Obligations	27,871,316.66	
MISO Exit Fee	18,593,188.44	
SFAS 109 - Deferred Taxes	10,207,179.55	
FERC Jurisdictional Pension Expense	2,812,425.87	
Wind Storm	2,188,420.32	
Ice Storm Expenses	395,784.00	
Other	130,013.77	
Other Deferred Debits	77,141,393.99	77,141,393.99
¹ Assets and Other Debits	4,238,518,565.37	4,238,518,565.37

January 22, 2009

Kentucky Utilities Company
Summary Trial Balance
December 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,743,492,902.46
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	240,711,597.00	
Retained Earnings	1,174,207,029.97	
Unappropriated Undistributed Subsidiary Earnings	20,755,586.80	
Bonds	350,779,405.00	350,779,405.00
Long-term Notes Payable to Associated Companies	1,181,000,000.00	1,181,000,000.00
Short-term Notes Payable to Associated Companies	16,247,454.00	16,247,454.00
Accounts Payable		166,771,077.14
Regular	155,564,615.58	
TIA	5,149,807.13	
Tax Collections - Payable	3,824,616.87	
Salaries and Wages Accrued	2,195,900.74	
Employee Withholdings Payable	36,136.82	
Accounts Payable to Associated Companies		24,709,458.05
E.ON US Services/Louisville Gas and Electric Company	24,709,458.05	
Customers' Deposits	21,057,049.05	21,057,049.05
T Accrued	8,558,559.95	8,558,559.95
Interest Accrued		14,653,836.21
Mercer County 2000 Series A due 05/01/23 Var%	6,097.48	
Carroll County 2002 Series A due 02/01/32 Var%	22,194.43	
Carroll County 2002 Series B due 02/01/32 Var%	2,544.98	
Muhlenburg County 2002 Series A due 02/01/32 Var%	2,544.98	
Mercer County 2002 Series A due 02/01/32 Var%	7,847.04	
Carroll County 2002 Series C due 10/01/32 Var%	9,962.65	
Carroll County 2004 Series A due 10/01/34 Var%	26,161.18	
Carroll County 2006 Series B due 10/01/34 Var%	26,778.69	
Carroll County 2007 Series A due 02/01/26 Var%	85,651.04	
Trimble County 2007 Series A due 03/01/37 Var%	44,635.00	
Carroll County 2008 Series A due 02/01/32 Var%	38,867.24	
Fidelia	13,433,503.96	
Customers' Deposits	833,874.38	
Other	113,173.16	

March 26, 2009

Kentucky Utilities Company
Summary Trial Balance
December 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		12,258,283.45
Vacation Pay Accrued	5,186,626.88	
Franchise Fee Payable	4,489,028.59	
Customer Overpayments	2,276,151.64	
Derivative Liabilities - Non-Hedging	43,077.51	
Other	263,398.83	
Accumulated Deferred Income Taxes		327,206,027.34
Federal	283,326,327.00	
State	43,879,700.34	
Investment Tax Credit		79,951,702.29
Advance Coal Credit	79,833,544.97	
Job Development Credit	118,157.32	
Regulatory Liabilities		40,483,282.60
Deferred Taxes - SFAS 109	25,949,954.21	
MISO Schedule 10 Charges	9,172,734.00	
Asset Retirement Obligations	3,901,424.03	
Spare Parts	1,459,170.36	
Customers' Advances for Construction		2,430,316.35
Line Extensions	1,494,571.08	
ustomer Advances	931,949.37	
Outdoor Lighting Deposits	3,795.90	
Asset Retirement Obligations	32,566,110.14	32,566,110.14
Other Deferred Credits	21,709,079.32	21,709,079.32
Miscellaneous Long-term Liabilities		2,595,219.78
Workers' Compensation	2,592,339.78	
Uncertain Tax Positions	2,880.00	
Accumulated Provision for Benefits		192,048,802.24
Pension Payable	123,549,944.00	
Postretirement Benefits - SFAS 106	68,614,668.24	
Post Employment Benefits Payable	5,743,518.00	
Post Employment Medicare Subsidy	(258,069.00)	
Medicare Subsidy - SFAS 106	(5,601,259.00)	
Total Liabilities and Other Credits	4,238,518,565.37	4,238,518,565.37

March 26, 2009

Kentucky Utilities Company
Statement of Cash Flows
December 31, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	157,265,566.76	166,962,574.48
Items not requiring (providing) cash currently:		
Depreciation	131,115,009.09	115,264,164.71
Amortization	5,229,655.85	5,420,544.96
Deferred income taxes - net	(13,352,376.88)	(1,604,551.40)
Investment tax credit - net	25,266,897.97	41,975,337.00
Other	10,940,101.20	15,645,380.56
Change in receivables	11,538,194.84	(15,534,506.19)
Change in inventory	(32,876,570.99)	20,963,985.13
Change in allowance inventory	308,474.83	1,287,643.72
Change in payables and accrued expenses	16,490,659.15	(77,626,159.92)
Change in regulatory assets	(106,865,168.10)	32,851,592.32
Change in regulatory liabilities	2,762,246.52	1,781,662.60
Change in other deferred debits	(4,750,750.08)	(3,188,788.46)
Change in other deferred credits	3,800,403.20	6,153,001.64
Other	89,500,038.97	2,610,853.43
Less: Allowance for other funds used during construction	(8,089,436.97)	(4,283,511.48)
Less: Undistributed earnings of subsidiary company	451,481.20	(4,958,781.00)
Net cash provided (used) by operating activities	288,734,426.56	303,720,442.10
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(700,047,459.02)	(744,355,546.80)
Less: Allowance for other funds used during construction	8,089,436.97	4,283,511.48
Gain (Loss) on disposal of property	-	(741,720.25)
Change in other long-term debt	-	(433,540.00)
Change in long-term investments	(915,093.11)	(196,189.74)
Change in restricted cash	1,475,547.12	11,821,428.13
Net cash provided (used) by investing activities	(691,397,568.04)	(729,622,057.18)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	326,631,129.44	526,750,682.58
Net change in short-term debt	(6,972,000.00)	(73,823,600.00)
Payments for retirement of long-term debt	(59,921,140.00)	(107,000,000.00)
Payments for reacquisition of long-term debt	(79,593,620.00)	-
Reissuance of reacquired long-term debt	62,900,000.00	-
Retirement of reacquired long-term debt	16,693,620.00	-
Contributed capital	145,000,000.00	75,000,000.00
Net cash provided (used) by financing activities	404,737,989.44	420,927,082.58
Net Increase (Decrease) in Cash and Cash Equivalents	2,074,847.96	(4,974,532.50)
ash and Cash Equivalents at Beginning of Period	338,510.70	5,313,043.20
Cash and Cash Equivalents at End of Period	2,413,358.66	338,510.70

March 26, 2009

Kentucky U[illegible]s Company
Analysis of Interest Charges
December 31, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%..........	-	-	-	1,574,100.00	-	1,574,100.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)..........	-	-	-	981,941.93	-	981,941.93
Mercer County 2000 Series A due 05/01/23 Var%..........	6,097.46	-	295,138.08	-	295,138.08	-
Carroll County 2002 Series A due 02/01/32 Var%..........	22,194.42	62,496.31	384,152.36	779,295.48	384,152.36	779,295.48
Carroll County 2002 Series B due 02/01/32 Var%..........	2,544.99	7,166.32	44,049.97	89,360.19	44,049.97	89,360.19
Muhlenburg County 2002 Series A due 02/01/32 Var%..........	2,544.99	7,166.32	44,049.97	89,360.19	44,049.97	89,360.19
Mercer County 2002 Series A due 02/01/32 Var%..........	7,847.05	22,096.16	135,820.73	275,527.28	135,820.73	275,527.28
Carroll County 2002 Series C due 10/01/32 Var%..........	133,426.67	363,296.00	3,562,335.99	3,775,994.66	3,562,335.99	3,775,994.66
Carroll County 2004 Series A due 10/01/34 Var%..........	26,161.19	188,472.22	1,550,362.60	1,939,479.18	1,550,362.60	1,939,479.18
Carroll County 2005 Series A due 06/01/35 Var%..........	-	50,340.70	443,853.65	508,727.85	443,853.65	508,727.85
Carroll County 2005 Series B due 06/01/35 Var%..........	-	50,340.70	442,896.59	501,024.87	442,896.59	501,024.87
Carroll County 2006 Series A due 06/01/36 Var%..........	-	65,406.53	831,961.34	655,062.30	831,961.34	655,062.30
Carroll County 2006 Series C due 06/01/36 Var%..........	-	65,406.53	338,340.01	654,526.67	338,340.01	654,526.67
Carroll County 2006 Series B due 10/01/34 Var%..........	128,847.69	207,300.00	2,885,163.69	1,794,630.00	2,885,163.69	1,794,630.00
Carroll County 2007 Series A due 02/01/26 Var%..........	88,506.07	74,603.30	985,687.09	445,251.36	985,687.09	445,251.36
Trimble County 2007 Series A due 03/01/37 Var%..........	46,122.83	37,257.83	508,940.70	222,269.89	508,940.70	222,269.89
Carroll County 2008 Series A due 02/01/32 Var%..........	88,702.44	-	325,419.75	-	325,419.75	-
Interest Rate Swaps..........	-	-	-	(86,856.15)	-	(86,856.15)
Marked to Market..........	-	-	-	(328,589.00)	-	(328,589.00)
Fidelia..........	5,271,043.75	3,921,199.99	55,552,382.70	34,822,646.54	55,552,382.70	34,822,646.54
Hardin Promissory Note..........	-	49,109.58	-	(193,269.67)	-	(193,269.67)
Total..........	5,824,039.55	5,171,658.49	68,330,555.22	48,500,483.57	68,330,555.22	48,500,483.57
Amortization of Debt Expense - Net						
Amortization of Debt Expense..........	16,666.41	24,059.12	250,311.28	334,934.62	250,311.28	334,934.62
Amortization of Loss on Reacquired Debt..........	49,341.66	36,378.00	493,259.24	518,565.90	493,259.24	518,565.90
Total..........	66,008.07	60,437.12	743,570.52	853,500.52	743,570.52	853,500.52
Other Interest Charges						
Customers' Deposits..........	101,191.93	89,319.62	1,152,205.46	1,102,013.40	1,152,205.46	1,102,013.40
Other Tax Deficiencies..........	2,880.00	(3,424.00)	19,417.70	(2,967.92)	19,417.70	(2,967.92)
Interest on DSM Cost Recovery..........	4,374.21	-	35,285.87	-	35,285.87	-
Interest on Debt to Associated Companies..........	103,564.54	343,707.68	2,307,256.56	6,421,720.26	2,307,256.56	6,421,720.26
AFUDC Borrowed Funds..........	(189,115.37)	(122,738.89)	(2,048,468.41)	(955,806.63)	(2,048,468.41)	(955,806.63)
Other Interest Expense..........	270,665.11	-	1,110,999.75	301.29	1,110,999.75	301.29
Total..........	293,560.42	306,864.41	2,576,696.93	6,565,260.40	2,576,696.93	6,565,260.40
Total Interest..........	6,183,608.04	5,538,960.02	71,650,822.67	55,919,244.49	71,650,822.67	55,919,244.49

January 22, 2009

Kentucky Utilities Company
Analysis of Taxes Charged
December 31, 2008

Kind of Taxes	Current Month		Year to Date	
	This Year	Last Year	This Year	Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	520,087.01	409,782.01	12,471,198.12	10,864,406.61
Unemployment	25,056.07	38,040.16	179,928.92	179,964.46
FICA	765,744.77	326,840.32	6,141,814.90	5,717,314.82
Public Service Commission Fee	149,395.89	149,209.73	1,791,633.67	1,727,606.09
Federal Income	8,406,629.94	(7,668,751.51)	43,184,628.81	27,762,415.79
State Income	759,158.67	1,282,886.68	10,053,733.93	13,060,218.03
Miscellaneous	3,486.88	1,866.03	76,518.71	(50,215.31)
Total Charged to Operating Expense	10,629,559.23	(5,460,126.58)	73,899,457.06	59,261,710.49
Taxes Charged to Other Accounts	(13,734,633.80)	1,374,642.43	5,494,766.98	2,589,797.12
Taxes Accrued on Intercompany Accounts	(468,974.80)	(99,828.78)	(2,435,546.25)	(2,240,702.48)
Total Taxes Charged	(3,574,049.37)	(4,185,312.93)	76,958,677.79	59,610,805.13

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,455,854.42	12,890,237.57	12,554,076.75	6,792,015.24
Unemployment	36,767.25	115,701.60	104,149.71	48,319.14
FICA	497,417.13	5,634,373.62	5,578,342.46	553,448.29
Federal Income	(5,097,779.62)	46,089,384.01	40,445,354.62	546,249.77
State Income	1,103,849.76	8,161,454.47	9,254,826.24	10,477.99
Kentucky Sales and Use Tax	618,307.69	3,967,830.98	4,008,265.49	577,873.18
Miscellaneous	18,792.54	99,695.54	88,311.74	30,176.34
Totals	3,633,209.17	76,958,677.79	72,033,327.01	8,558,559.95

March 26, 2009

Kentucky Company
Summary of Utility Plant
December 31, 2008

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,038,231,358.94	63,247,868.91	(203,180.39)	8,166,197.45	71,210,885.97	1,109,442,244.91
Electric General Plant	97,982,327.01	8,400,593.52	(172.34)	(0.06)	8,400,421.12	106,382,748.13
Electric Hydro Production	10,974,095.24	904,252.50	(47,183.50)	-	857,069.00	11,831,164.24
Electric Intangible Plant	24,723,054.27	2,106,889.15	-	-	2,106,889.15	26,829,943.42
Electric Other Production	497,590,724.76	7,704,558.80	(2,244,288.39)	-	5,460,270.41	503,050,995.17
Electric Steam Production	1,678,193,956.12	42,537,912.93	(5,185,307.57)	-	37,352,605.36	1,715,546,561.48
Electric Transmission	520,264,996.06	13,763,587.87	(237,426.81)	(8,166,197.45)	5,359,963.61	525,624,959.67
Total 101 Accounts	3,867,960,512.40	138,665,663.68	(7,917,559.00)	(0.06)	130,748,104.62	3,998,708,617.02
105 Plant Held for Future Use						
Electric						
Electric Distribution	-	-	-	10,137,561.95	10,137,561.95	10,137,561.95
Total 105001	-	-	-	10,137,561.95	10,137,561.95	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	-	121,899,315.73	-	-	121,899,315.73	121,899,315.73
Electric General Plant	-	2,677,508.16	-	-	2,677,508.16	2,677,508.16
Electric Hydro Production	-	11,732.37	-	-	11,732.37	11,732.37
Electric Intangible Plant	-	1,058,583.09	-	-	1,058,583.09	1,058,583.09
Electric Other Production	-	210,168.91	-	-	210,168.91	210,168.91
Electric Steam Production	-	307,830,864.65	-	-	307,830,864.65	307,830,864.65
Electric Transmission	-	3,483,426.89	-	-	3,483,426.89	3,483,426.89
Total 106 Accounts	-	437,171,599.80	-	-	437,171,599.80	437,171,599.80
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,071,388,625.97	105,051,545.80	-	-	105,051,545.80	1,176,440,171.77
Total 107001	1,071,388,625.97	105,051,545.80	-	-	105,051,545.80	1,176,440,171.77
Total Plant (Non-CWIP)	3,868,139,633.34	575,837,263.48	(7,917,559.00)	10,137,561.89	578,057,266.37	4,446,196,899.71
Total Plant + CWIP	4,939,528,259.31	680,888,809.28	(7,917,559.00)	10,137,561.89	683,108,812.17	5,622,637,071.48
Total Plant + CWIP - Nonutility (BS)	4,939,349,138.37	680,888,809.28	(7,917,559.00)	10,137,561.89	683,108,812.17	5,622,457,950.54

January 22, 2009

Kentucky [illegible]ompany
Summary of Utility Plant - Rese[illegible] for Depreciation of Utility Plant
December 31, 2008

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(359,033,190.58)	(25,040,395.39)	203,180.39	(3,158,577.30)	-	-	-	(56,231.97)	(387,085,214.85)
Electric Distribution - ARO	(6,595.17)	208.77	-	-	-	-	-	-	(6,386.40)
Electric General Plant	(48,907,493.20)	(5,098,873.17)	172.34	-	-	-	-	-	(54,006,194.03)
Electric Hydro Production	(7,500,880.74)	(137,861.41)	47,183.50	-	-	-	-	-	(7,591,558.65)
Electric Hydro Production - ARO	(1,760.08)	(51.84)	-	-	-	-	-	-	(1,811.92)
Electric Other Production	(115,416,383.68)	(16,926,405.74)	2,244,288.39	-	-	-	-	-	(130,098,501.03)
Electric Other Production - ARO	(29,672.77)	(2,395.79)	-	-	-	-	-	-	(32,068.56)
Electric Steam Production	(858,329,896.41)	(51,666,785.43)	5,185,307.57	-	-	-	-	-	(904,811,374.27)
Electric Steam Production - ARO	(4,283,726.18)	(331,409.57)	-	-	-	-	-	-	(4,615,135.75)
Electric Transmission	(202,812,741.57)	(9,024,663.71)	237,426.81	3,158,577.30	-	-	-	(76,966.41)	(208,518,367.58)
Electric Transmission - ARO	(4,014.63)	(565.45)	-	-	-	-	-	-	(4,580.08)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,596,326,355.01)	(108,229,198.73)	7,917,559.00	-	-	-	-	(133,198.38)	(1,696,771,193.12)
Cost of Removal									
Electric Distribution	(183,781,285.19)	(13,012,344.89)	-	(3,259,514.69)	-	180,829.43	-	-	(199,872,315.34)
Electric General Plant	122,007.03	0.05	-	-	-	30,318.48	-	-	152,325.56
Electric Hydro Production	(785,169.42)	(47,817.68)	-	-	-	163,306.47	-	-	(669,680.63)
Electric Other Production	(1,700,260.79)	-	-	-	-	55,421.36	-	-	(1,644,839.43)
Electric Steam Production	(78,172,998.47)	(8,551,765.21)	-	-	-	1,219,422.38	-	-	(85,505,341.30)
Electric Transmission	(136,721,262.34)	(7,623,143.14)	-	3,259,514.69	-	502,273.06	-	(141,895.82)	(140,724,513.55)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(401,038,969.18)	(29,235,070.87)	-	-	-	2,151,571.18	-	(141,895.82)	(428,264,364.69)
Salvage									
Electric Distribution	43,281,298.84	2,944,451.52	-	-	-	-	(625,391.21)	-	45,600,359.15
Electric General Plant	122,217.82	25,651.07	-	-	-	-	-	-	147,868.89
Electric Hydro Production	44,115.00	2,206.39	-	-	-	-	-	-	46,321.39
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	13,073,178.13	1,449,468.29	-	-	-	-	-	-	14,522,646.42
Electric Transmission	21,191,803.27	1,201,759.67	-	-	-	-	(5,923.84)	-	22,387,639.10
Nonutility Property	-	-	-	-	-	-	-	-	-
	78,331,504.67	5,623,536.94	-	-	-	-	(631,315.05)	-	83,323,726.56
Total Reserves									
Electric Distribution	(499,533,176.93)	(35,108,288.76)	203,180.39	(6,418,091.99)	-	180,829.43	(625,391.21)	(56,231.97)	(541,357,171.04)
Electric Distribution - ARO	(6,595.17)	208.77	-	-	-	-	-	-	(6,386.40)
Electric General Plant	(48,663,268.35)	(5,073,222.05)	172.34	-	-	30,318.48	-	-	(53,705,999.58)
Electric Hydro Production	(8,241,935.16)	(183,472.70)	47,183.50	-	-	163,306.47	-	-	(8,214,917.89)
Electric Hydro Production - ARO	(1,760.08)	(51.84)	-	-	-	-	-	-	(1,811.92)
Electric Other Production	(116,497,752.86)	(16,926,405.74)	2,244,288.39	-	-	55,421.36	-	-	(131,124,448.85)
Electric Other Production - ARO	(29,672.77)	(2,395.79)	-	-	-	-	-	-	(32,068.56)
Electric Steam Production	(923,429,716.75)	(58,769,082.35)	5,185,307.57	-	-	1,219,422.38	-	-	(975,794,069.15)
Electric Steam Production - ARO	(4,283,726.18)	(331,409.57)	-	-	-	-	-	-	(4,615,135.75)
Electric Transmission	(318,342,200.64)	(15,446,047.18)	237,426.81	6,418,091.99	-	502,273.06	(5,923.84)	(218,862.23)	(326,855,242.03)
Electric Transmission - ARO	(4,014.63)	(565.45)	-	-	-	-	-	-	(4,580.08)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,919,033,819.52)	(131,840,732.66)	7,917,559.00	-	-	2,151,571.18	(631,315.05)	(275,094.20)	(2,041,711,831.25)
Retirement Work in Process									
Electric	4,401,887.42	-	-	-	(1,245,161.93)	7,152,447.42	(1,042,194.47)	2,004,939.37	11,271,917.81
	4,401,887.42	-	-	-	(1,245,161.93)	7,152,447.42	(1,042,194.47)	2,004,939.37	11,271,917.81
YTD Activity	(1,914,631,932.10)	(131,840,732.66)	7,917,559.00	-	1,245,161.93	(5,000,876.24)	410,879.42	(2,280,033.57)	(2,030,439,913.44)
Amortization									
Electric	(16,822,592.14)	(5,229,655.85)	-	-	-	-	-	-	(22,052,247.99)
	(16,822,592.14)	(5,229,655.85)	-	-	-	-	-	-	(22,052,247.99)
Depreciation & Amortization Total	(1,931,454,524.24)	(137,070,388.51)	7,917,559.00	-	1,245,161.93	(5,000,876.24)	410,879.42	(2,280,033.57)	(2,052,492,161.43)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	3,007,894,614.13								3,569,965,789.11

January 22, 2009

KU Monthly Report to KPSC – November 30, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

November 30, 2008

Prepared by Regulatory Accounting and Reporting

Index
Financial and Operating Reports

Kentucky Utilities Company
November 30, 2009

Kentucky . .es Company
Comparative Statement of Income
November 30, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	118,974,538.38	103,051,682.15	15,922,856.23	15.45
Total Operating Revenues	118,974,538.38	103,051,682.15	15,922,856.23	15.45
Fuel for Electric Generation	44,317,875.88	33,283,160.13	11,034,715.75	33.15
Power Purchased	18,794,287.94	13,407,717.32	5,386,570.62	40.18
Other Operation Expenses	12,508,278.23	12,805,053.14	(296,774.91)	(2.32)
Maintenance	5,231,298.58	9,587,062.36	(4,355,763.78)	(45.43)
Depreciation	11,919,106.99	10,058,130.83	1,860,976.16	18.50
Amortization Expense	461,045.28	421,190.07	39,855.21	9.46
Regulatory Credits	(193,821.50)	(180,018.48)	(13,803.02)	7.67
Taxes				
Federal Income	6,064,378.74	5,390,081.89	674,296.85	12.51
State Income	836,358.02	1,036,554.22	(200,196.20)	(19.31)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	1,738,478.30	1,961,430.73	(222,952.43)	(11.37)
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	169,072.59	155,089.06	13,983.53	9.02
Total Operating Expenses	101,846,359.05	87,925,451.27	13,920,907.78	15.83
Net Operating Income	17,128,179.33	15,126,230.88	2,001,948.45	13.23
Other Income Less Deductions				
Other Income Less Deductions	318,304.44	2,256,769.74	(1,938,465.30)	(85.90)
AFUDC - Equity	537,007.11	407,271.68	129,735.43	31.85
Total Other Income Less Deductions	855,311.55	2,664,041.42	(1,808,729.87)	(67.89)
Income Before Interest Charges	17,983,490.88	17,790,272.30	193,218.58	1.09
Interest on Long-term Debt	5,861,955.79	4,776,411.12	1,085,544.67	22.73
Amortization of Debt Expense - Net	63,902.70	59,625.81	4,276.89	7.17
Other Interest Expenses	498,512.73	319,397.32	179,115.41	56.08
AFUDC - Borrowed Funds	(181,388.35)	(117,189.39)	(64,198.96)	54.78
Total Interest Charges	6,242,982.87	5,038,244.86	1,204,738.01	23.91
Net Income	11,740,508.01	12,752,027.44	(1,011,519.43)	(7.93)

December 19, 2008

Kentucky [illegible]es Company
Comparative Statement of Income
November 30, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,272,828,987.90	1,163,218,260.28	109,610,727.62	9.42
Total Operating Revenues	1,272,828,987.90	1,163,218,260.28	109,610,727.62	9.42
Fuel for Electric Generation	461,430,196.51	421,386,438.60	40,043,757.91	9.50
Power Purchased	202,726,107.84	154,352,491.33	48,373,616.51	31.34
Other Operation Expenses	150,977,311.92	138,753,918.91	12,223,393.01	8.81
Maintenance	81,559,488.96	76,642,746.74	4,916,742.22	6.42
Depreciation	119,298,985.25	105,156,166.56	14,142,818.69	13.45
Amortization Expense	4,767,362.34	5,004,094.46	(236,732.12)	(4.73)
Regulatory Credits	(2,081,838.48)	(1,921,536.27)	(160,302.21)	8.34
Taxes				
Federal Income	34,777,998.87	35,431,167.30	(653,168.43)	(1.84)
State Income	9,294,575.26	11,777,331.35	(2,482,756.09)	(21.08)
Deferred Federal Income - Net	(2,982,047.83)	(4,537,747.41)	1,555,699.58	(34.28)
Deferred State Income - Net	(1,429,408.42)	(125,564.12)	(1,303,844.30)	1,038.39
Property and Other	19,197,323.70	17,513,338.42	1,683,985.28	9.62
Investment Tax Credit	21,919,897.97	28,966,647.00	(7,046,749.03)	(24.33)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,811,614.06	1,706,273.66	105,340.40	6.17
Total Operating Expenses	1,100,684,461.40	989,398,915.02	111,285,546.38	11.25
Net Operating Income	172,144,526.50	173,819,345.26	(1,674,818.76)	(0.96)
Other Income Less Deductions				
Other Income Less Deductions	25,926,372.24	24,623,444.49	1,302,927.75	5.29
AFUDC - Equity	5,481,085.40	2,901,235.55	2,579,849.85	88.92
Total Other Income Less Deductions	31,407,457.64	27,524,680.04	3,882,777.60	14.11
Income Before Interest Charges	203,551,984.14	201,344,025.30	2,207,958.84	1.10
Interest on Long-term Debt	62,506,515.67	43,328,825.08	19,177,690.59	44.26
Amortization of Debt Expense - Net	677,562.45	793,063.40	(115,500.95)	(14.56)
Other Interest Expenses	4,142,489.55	7,091,463.73	(2,948,974.18)	(41.58)
AFUDC - Borrowed Funds	(1,859,353.04)	(833,067.74)	(1,026,285.30)	123.19
Total Interest Charges	65,467,214.63	50,380,284.47	15,086,930.16	29.95
Net Income	138,084,769.51	150,963,740.83	(12,878,971.32)	(8.53)

December 19, 2008

Kentucky ... es Company
Comparative Statement of Income
November 30, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,382,159,626.86	1,269,629,744.30	112,529,882.56	8.86
Total Operating Revenues	1,382,159,626.86	1,269,629,744.30	112,529,882.56	8.86
Fuel for Electric Generation	500,162,442.55	455,610,423.14	44,552,019.41	9.78
Power Purchased	216,817,222.15	167,542,308.68	49,274,913.47	29.41
Other Operation Expenses	165,146,229.37	151,584,704.71	13,561,524.66	8.95
Maintenance	90,158,936.41	83,377,829.39	6,781,107.02	8.13
Depreciation	129,406,983.40	114,696,302.60	14,710,680.80	12.83
Amortization Expense	5,183,812.84	5,429,727.77	(245,914.93)	(4.53)
Regulatory Credits	(2,261,505.55)	(2,091,930.68)	(169,574.87)	8.11
Taxes				
Federal Income	27,109,247.36	31,420,457.37	(4,311,210.01)	(13.72)
State Income	10,577,461.94	12,573,752.97	(1,996,291.03)	(15.88)
Deferred Federal Income - Net	(4,804,463.80)	(5,271,113.12)	466,649.32	(8.85)
Deferred State Income - Net	(1,791,909.98)	(597,070.10)	(1,194,839.88)	200.12
Property and Other	20,123,061.95	19,311,611.55	811,450.40	4.20
Investment Tax Credit	35,519,897.97	40,966,647.00	(5,446,749.03)	(13.30)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,966,703.12	1,851,908.66	114,794.46	6.20
Total Operating Expenses	1,192,731,013.18	1,075,698,708.43	117,032,304.75	10.88
Net Operating Income	189,428,613.68	193,931,035.87	(4,502,422.19)	(2.32)
Other Income Less Deductions				
Other Income Less Deductions	29,753,609.43	27,386,885.58	2,366,723.85	8.64
AFUDC - Equity	5,907,554.70	2,984,128.67	2,923,426.03	97.97
Total Other Income Less Deductions	35,661,164.13	30,371,014.25	5,290,149.88	17.42
Income Before Interest Charges	225,089,777.81	224,302,050.12	787,727.69	0.35
Interest on Long-term Debt	67,678,174.16	46,564,103.98	21,114,070.18	45.34
Amortization of Debt Expense - Net	737,999.57	869,544.40	(131,544.83)	(15.13)
Other Interest Expenses	4,572,092.85	7,408,715.72	(2,836,622.87)	(38.29)
AFUDC - Borrowed Funds	(1,982,091.93)	(889,745.44)	(1,092,346.49)	122.77
Total Interest Charges	71,006,174.65	53,952,618.66	17,053,555.99	31.61
Net Income	154,083,603.16	170,349,431.46	(16,265,828.30)	(9.55)

December 19, 2008

Kentucky Utilities Company
Analysis of Retained Earnings
November 30, 2008

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance at Beginning of Period	1,138,385,852.71	25,655,458.80	1,016,489,982.01	21,207,068.00	1,003,207,881.36	18,490,335.00
Add:						
Net Income for Period	11,740,508.01		138,084,769.51		154,083,603.16	
FIN 48 Adjustment	-		-		-	
Deduct:						
Adjust for Equity in Subsidiary Earnings for Year -EE Inc	(1,152,706.00)	1,152,706.00	(28,101,096.80)	28,101,096.80	(30,817,829.80)	30,817,829.80
Dividends Received Current Year -EE Inc	7,500,000.00	(7,500,000.00)	30,000,000.00	(30,000,000.00)	30,000,000.00	(30,000,000.00)
Balance at End of Period	1,156,473,654.72	19,308,164.80	1,156,473,654.72	19,308,164.80	1,156,473,654.72	19,308,164.80

Combined Retained Earnings	12 MONTHS 11/30/2008	12 MONTHS 11/30/2007
Retained Earnings at Beginning of Period	1,021,698,216.36	850,993,623.90
Net Income	154,083,603.16	170,349,431.46
FIN 48 Adjustment	-	355,161.00
Retained Earnings at End of Period	1,175,781,819.52	1,021,698,216.36

December 19, 2008

Kentucky . .s Company
Comparative Balance Sheets as of November 30, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,558,588,521.03	4,853,873,483.09
Less Reserves for Depreciation and Amortization	2,048,052,940.69	1,924,495,166.46
Total	3,510,535,580.34	2,929,378,316.63
Investments		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	968,786.41
Investments in Subsidiary Companies	20,603,964.80	19,786,135.00
Special Funds	5,936,601.10	5,883,768.89
Other	411,140.00	411,140.00
Total	27,380,826.84	27,299,830.30
Current and Accrued Assets		
Cash	3,369,874.85	2,945,591.49
Special Deposits	10,718,221.03	12,141,117.76
Temporary Cash Investments	13.11	17,423.17
Accounts Receivable-Less Reserve	172,152,454.10	160,501,130.95
Accounts Receivable from Associated Companies	6,021,800.51	8,630,576.88
Materials and Supplies-At Average Cost		
Fuel	78,771,684.30	52,764,896.36
Plant Materials and Operating Supplies	29,681,308.24	26,588,016.84
Stores Expense	6,291,926.15	6,404,130.12
Allowance Inventory	80,327.71	645,074.49
Prepayments	6,477,723.91	5,873,040.99
Miscellaneous Current and Accrued Assets	426,804.82	636,144.36
Total	313,992,138.73	277,147,143.41
Deferred Debits and Other		
Unamortized Debt Expense	4,283,406.20	7,063,840.87
Unamortized Loss on Bonds	13,221,612.10	10,210,044.95
Accumulated Deferred Income Taxes	42,637,085.93	49,793,664.13
Deferred Regulatory Assets	86,608,028.72	117,201,313.85
Other Deferred Debits	72,225,594.20	74,365,480.84
Total	218,975,727.15	258,634,344.64
Total Assets and Other Debits	4,070,884,273.06	3,492,459,634.98

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	215,000,000.00	70,000,000.00
Retained Earnings	1,156,473,654.72	1,003,207,881.36
Unappropriated Undistributed Subsidiary Earnings	19,308,164.80	18,490,335.00
Total Common Equity	1,698,600,508.21	1,399,516,905.05
Pollution Control Bonds - Net of Reacquired Bonds	287,879,405.00	332,753,140.00
LT Notes Payable to Associated Companies	1,106,000,000.00	831,000,000.00
Total Long-term Debt	1,393,879,405.00	1,163,753,140.00
Total Capitalization	3,092,479,913.21	2,563,270,045.05
Current and Accrued Liabilities		
ST Notes Payable to Associated Companies	163,667,454.00	116,692,054.00
Accounts Payable	144,566,297.02	145,273,216.97
Accounts Payable to Associated Companies	12,266,933.62	20,034,820.56
Customer Deposits	21,178,751.97	19,390,486.81
Taxes Accrued	12,423,859.65	20,709,829.47
Interest Accrued	17,816,520.90	12,721,456.84
Miscellaneous Current and Accrued Liabilities	10,959,990.65	10,345,241.35
Total	382,879,807.81	345,167,106.00
Deferred Credits and Other		
Accumulated Deferred Income Taxes	326,516,267.17	334,869,627.27
Investment Tax Credit	76,630,895.28	41,448,386.32
Regulatory Liabilities	40,890,620.11	37,399,707.93
Customer Advances for Construction	2,304,245.37	4,822,751.59
Asset Retirement Obligations	32,396,148.84	30,159,970.20
Other Deferred Credits	28,787,121.83	16,717,054.49
Miscellaneous Long-term Liabilities	3,475,372.45	4,325,309.06
Accum Provision for Postretirement Benefits	84,523,880.99	114,279,677.07
Total	595,524,552.04	584,022,483.93
Total Liabilities and Other Credits	4,070,884,273.06	3,492,459,634.98

December 19, 2008

Kentucky [illegible]ies Company
Statement of Capitalization and Short-term Debt
November 30, 2008

	Authorized	Issued and Outstanding		Percent of Total	
	Shares	Shares	Amount	Capital and ST Debt	Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			215,000,000.00		
Retained Earnings			1,156,473,654.72		
Unappropriated Undistributed Subsidiary Earnings			19,308,164.80		
Total Common Equity			1,698,600,508.21	52.16	54.93
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Carroll County 2008 Series A due 02/01/32 Var%			77,947,405.00		
			350,779,405.00	10.77	11.34
Less Reacquired Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			(12,900,000.00)		
Carroll County 2004 Series A due 10/01/34 Var%			(50,000,000.00)		
			(62,900,000.00)	(1.93)	(2.03)
Total Pollution Control Bonds - Net of Reacquired Bonds			287,879,405.00	8.84	9.31
Long-term Notes Payable to Associated Companies			1,106,000,000.00	33.97	35.76
Total Capitalization			3,092,479,913.21	94.97	100.00
Short-term Notes Payable to Associated Companies			163,667,454.00	5.03	
Total Capitalization and Short-term Debt			3,256,147,367.21	100.00	

December 19, 2008

Kentucky Utilities Company
Summary Trial Balance
November 30, 2008

A ɿt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,558,588,521.03	5,558,588,521.03
Reserves for Depreciation and Amortization		(2,048,052,940.69)
Depreciation	(2,026,462,986.21)	
Amortization of Plant	(21,589,954.48)	
Investments		27,380,826.84
Investments in Subsidiary Companies	20,603,964.80	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
OMU - Interest on Reserve, New	1,381,203.31	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
Ally	411,140.00	
Ohio Valley Electric Corporation	250,000.00	
Nonutility Property	179,120.94	
OMU - Revenue and Investments Interest on Purchase Power	167,333.16	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
Cash	3,369,874.85	3,369,874.85
Special Deposits		10,718,221.03
Restricted Cash	9,033,681.53	
MAN Margin Call	1,684,539.50	
T ɿrary Cash Investments	13.11	13.11
Accounts Receivable - Less Reserve		172,152,454.10
Customers - Active	79,455,384.73	
Unbilled Revenues	59,446,000.00	
Income Tax Receivable - Federal	8,764,376.22	
Interest and Dividends Receivable	7,514,235.82	
Wholesale Sales	7,444,695.91	
IMPA	3,436,313.21	
IMEA	3,233,549.40	
Transmission Sales	418,524.91	
Damage Claims	119,999.33	
Employee Computer Loans	55,760.32	
Working Funds	32,867.13	
Other	5,156,441.96	
Reserves for Uncollectible Accounts		
Utility Customers		
Charged Off	3,492,014.47	
Accrual	(2,717,085.31)	
LEM Reserve	(1,899,079.22)	
Reserve	(984,434.00)	
Recoveries	(772,035.78)	
A/R Miscellaneous	(45,075.00)	
Ac⁻⁻unts Receivable from Associated Companies		6,021,800.51
.ON US Services/Louisville Gas and Electric Company	6,021,800.51	

Kentucky Utilities Company
Summary Trial Balance
November 30, 2008

Ac ıt - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		78,771,684.30
Coal 1,199,355.92 Tons @ $60.54 MMBtu 28,299,949.71 @ 256.56¢	72,605,190.37	
Fuel Oil 2,598,717 Gallons @ 235.90¢	6,130,285.91	
Gas Pipeline 3,833.10 Mcf @ $9.45	36,208.02	
Plant Materials and Operating Supplies		29,681,308.24
Regular Materials and Supplies	29,074,135.74	
Limestone 78,831.36 Tons @ $7.70	607,172.50	
Stores Expense Undistributed	6,291,926.15	6,291,926.15
Allowance Inventory	80,327.71	80,327.71
Prepayments		6,477,723.91
Insurance	2,964,415.97	
Taxes	1,045,771.28	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	34,268.31	
Other	2,358,268.35	
Miscellaneous Current Assets		426,804.82
Derivative Asset - Non-Hedging	426,804.82	
Unamortized Debt Expense		4,283,406.20
Carroll County 2002 Series A due 02/01/32 Var%	94,998.34	
ırroll County 2002 Series B due 02/01/32 Var%	66,035.62	
ıMuhlenburg County 2002 Series A due 02/01/32 Var%	73,512.11	
Mercer County 2002 Series A due 02/01/32 Var%	26,503.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,735,975.74	
Carroll County 2006 Series B due 10/01/34 Var%	970,979.05	
Carroll County 2007 Series A due 02/01/26 Var%	556,488.29	
Trimble County 2007 Series A due 03/01/37 Var%	423,106.01	
Carroll County 2008 Series A due 02/01/32 Var%	335,807.64	
Unamortized Loss on Bonds		13,221,612.10
Refinanced and Called Bonds	13,221,612.10	
Accumulated Deferred Income Taxes		42,637,085.93
Federal	36,011,473.73	
State	6,625,612.20	
Regulatory Assets		86,608,028.72
Pension and Postretirement Benefits	28,091,683.11	
Asset Retirement Obligations	27,676,606.43	
MISO Exit Fee	18,630,559.83	
SFAS 109 - Deferred Taxes	8,963,869.33	
FERC Jurisdictional Pension Expense	2,783,559.02	
Ice Storm Expenses	461,751.00	
Other Deferred Debits	72,225,594.20	72,225,594.20
T ssets and Other Debits	4,070,884,273.06	4,070,884,273.06

December 19, 2008

Kentucky Utilities Company
Summary Trial Balance
November 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,698,600,508.21
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	215,000,000.00	
Retained Earnings	1,156,473,654.72	
Unappropriated Undistributed Subsidiary Earnings	19,308,164.80	
Bonds		287,879,405.00
Pollution Control Bonds - Net of Reacquired Bonds	287,879,405.00	
Long-term Notes Payable to Associated Companies	1,106,000,000.00	1,106,000,000.00
Short-term Notes Payable to Associated Companies	163,667,454.00	163,667,454.00
Accounts Payable		144,566,297.02
Regular	139,856,312.80	
Tax Collections - Payable	3,286,029.45	
Salaries and Wages Accrued	1,385,377.00	
Employee Withholdings Payable	38,577.77	
Accounts Payable to Associated Companies		12,266,933.62
E.ON US Services/Louisville Gas and Electric Company	12,266,933.62	
Customers' Deposits	21,178,751.97	21,178,751.97
T Accrued	12,423,859.65	12,423,859.65
Interest Accrued		17,816,520.90
Mercer County 2000 Series A due 05/01/23 Var%	(0.01)	
Carroll County 2002 Series A due 02/01/32 Var%	85,813.01	
Carroll County 2002 Series B due 02/01/32 Var%	9,839.99	
Muhlenburg County 2002 Series A due 02/01/32 Var%	9,839.99	
Mercer County 2002 Series A due 02/01/32 Var%	30,339.99	
Carroll County 2002 Series C due 10/01/32 Var%	64,415.98	
Carroll County 2004 Series A due 10/01/34 Var%	(0.01)	
Carroll County 2006 Series B due 10/01/34 Var%	16,087.50	
Carroll County 2007 Series A due 02/01/26 Var%	511,051.22	
Trimble County 2007 Series A due 03/01/37 Var%	266,322.17	
Carroll County 2008 Series A due 02/01/32 Var%	49,835.21	
Fidelia	15,974,960.21	
Customers' Deposits	750,566.29	
Other	47,449.36	

December 19, 2008

Kentucky Utilities Company
Summary Trial Balance
November 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		10,959,990.65
Vacation Pay Accrued	5,291,494.55	
Franchise Fee Payable	2,923,571.97	
Customer Overpayments	2,471,478.53	
Derivative Liabilities - Non-Hedging	176,029.76	
Other	97,415.84	
Accumulated Deferred Income Taxes		326,516,267.17
Federal	282,542,044.65	
State	43,974,222.52	
Investment Tax Credit		76,630,895.28
Advance Coal Credit	76,486,544.97	
Job Development Credit	144,350.31	
Regulatory Liabilities		40,890,620.11
Deferred Taxes - SFAS 109	26,749,617.45	
MISO Schedule 10 Charges	8,845,136.00	
Asset Retirement Obligations	3,880,451.19	
Spare Parts	1,415,415.47	
Customers' Advances for Construction		2,304,245.37
Line Extensions	1,369,500.10	
Customer Advances	930,949.37	
Outdoor Lighting Deposits	3,795.90	
Asset Retirement Obligations	32,396,148.84	32,396,148.84
Other Deferred Credits	28,787,121.83	28,787,121.83
Miscellaneous Long-term Liabilities		3,475,372.45
Workers' Compensation	3,475,372.45	
Accumulated Provision for Benefits		84,523,880.99
Postretirement Benefits - SFAS 106	64,634,205.36	
Pension Payable	20,163,191.00	
Post Employment Benefits Payable	5,349,374.00	
Post Employment Medicare Subsidy	(194,683.86)	
Medicare Subsidy - SFAS 106	(5,428,205.51)	
Total Liabilities and Other Credits	4,070,884,273.06	4,070,884,273.06

December 19, 2008

Kentucky Utilities Company
Statement of Cash Flows
November 30, 2008

	Year to Date 2008	2007
Cash Flows from Operating Activities		
Net income	138,084,769.51	150,963,740.83
Items not requiring (providing) cash currently:		
Depreciation	119,298,985.25	105,156,166.56
Amortization	4,767,362.34	5,004,094.46
Deferred income taxes - net	(4,411,456.25)	928,146.58
Investment tax credit - net	21,919,897.97	28,424,611.00
Other	10,507,217.86	40,424,245.21
Change in receivables	10,576,053.13	4,084,093.72
Change in inventory	(39,149,456.84)	10,802,403.66
Change in allowance inventory	302,566.40	1,025,463.34
Change in payables and accrued expenses	12,742,772.34	(89,724,128.69)
Change in regulatory assets	(4,442,778.10)	(2,184,470.91)
Change in regulatory liabilities	3,169,584.03	1,460,334.45
Change in other deferred debits	(1,980,552.98)	(13,679,027.10)
Change in other deferred credits	15,350,978.23	9,433,912.53
Other	(14,128,844.57)	3,675,376.14
Less: Allowance for other funds used during construction	(7,340,438.44)	(3,734,303.29)
,ess: Undistributed earnings of subsidiary company	1,898,903.20	(2,242,048.00)
Net cash provided (used) by operating activities	267,165,563.08	249,818,610.49
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(666,701,971.86)	(660,612,602.10)
Less: Allowance for other funds used during construction	7,340,438.44	3,734,303.29
Change in other long-term debt	-	(433,540.00)
Change in long-term investments	113,530.49	(163,698.36)
Change in restricted cash	267,334.75	10,665,866.15
Net cash provided (used) by investing activities	(658,980,668.18)	(646,809,671.02)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	252,219,622.36	426,992,031.99
Net change in short-term debt	140,448,000.00	19,649,000.00
Payments for retirement of long-term debt	(59,921,140.00)	(107,000,000.00)
Payments for reacquisition of long-term debt	(79,593,620.00)	-
Retirement of reacquired long-term debt	16,693,620.00	-
Contributed capital	125,000,000.00	55,000,000.00
Net cash provided (used) by financing activities	394,846,482.36	394,641,031.99
Net Increase (Decrease) in Cash and Cash Equivalents	3,031,377.26	(2,350,028.54)
sh and Cash Equivalents at Beginning of Period	338,510.70	5,313,043.20
Cash and Cash Equivalents at End of Period	3,369,887.96	2,963,014.66

December 19, 2008

Kentucky [illegible]s Company
Analysis of Interest Charges
November 30, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%	-	-	-	1,574,100.00	-	1,923,900.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	-	-	981,941.93	-	1,158,011.53
Mercer County 2000 Series A due 05/01/23 Var%	-	-	289,040.62	-	289,040.62	40,903.75
Carroll County 2002 Series A due 02/01/32 Var%	31,395.00	61,340.35	361,957.94	716,799.17	424,454.25	782,215.46
Carroll County 2002 Series B due 02/01/32 Var%	3,600.00	7,033.77	41,504.98	82,193.87	48,671.30	89,695.02
Muhlenburg County 2002 Series A due 02/01/32 Var%	3,600.00	7,033.77	41,504.98	82,193.87	48,671.30	89,695.02
Mercer County 2002 Series A due 02/01/32 Var%	11,100.00	21,687.46	127,973.68	253,431.12	150,069.84	276,559.67
Carroll County 2002 Series C due 10/01/32 Var%	261,504.00	283,920.00	3,428,909.32	3,412,698.66	3,792,205.32	3,710,965.32
Carroll County 2004 Series A due 10/01/34 Var%	-	165,763.89	1,524,201.41	1,751,006.96	1,712,673.63	1,903,854.18
Carroll County 2005 Series A due 06/01/35 Var%	7,508.83	41,201.25	443,853.65	458,387.15	494,194.35	499,393.81
Carroll County 2005 Series B due 06/01/35 Var%	7,508.83	41,201.25	442,896.59	450,684.17	493,237.29	492,304.79
Carroll County 2006 Series A due 06/01/36 Var%	52,793.58	54,532.49	831,961.34	589,655.77	897,367.87	642,186.88
Carroll County 2006 Series C due 06/01/36 Var%	-	54,532.49	338,340.01	589,120.14	403,746.54	632,013.47
Carroll County 2006 Series B due 10/01/34 Var%	185,937.00	168,975.00	2,756,316.00	1,587,330.00	2,963,616.00	1,587,330.00
Carroll County 2007 Series A due 02/01/26 Var%	74,230.92	58,391.67	897,181.02	370,648.06	971,784.32	370,648.06
Trimble County 2007 Series A due 03/01/37 Var%	38,683.71	28,963.16	462,817.87	185,012.06	500,075.70	185,012.06
Carroll County 2008 Series A due 02/01/32 Var%	132,893.92	-	236,717.31	-	236,717.31	-
Interest Rate Swaps	-	-	-	(86,856.15)	-	(96,931.67)
Marked to Market	-	-	-	(328,589.00)	-	(425,779.00)
Fidelia	5,051,200.00	3,739,533.32	50,281,338.95	30,901,446.55	54,202,538.94	32,944,504.88
Hardin Promissory Note	-	42,301.25	-	(242,379.25)	49,109.58	(242,379.25)
Total	5,861,955.79	4,776,411.12	62,506,515.67	43,328,825.08	67,678,174.16	46,564,103.98
Amortization of Debt Expense - Net						
Amortization of Debt Expense	15,268.36	23,247.81	233,644.87	310,875.50	257,703.99	333,605.50
Amortization of Loss on Reacquired Debt	48,634.34	36,378.00	443,917.58	482,187.90	480,295.58	535,938.90
Total	63,902.70	59,625.81	677,562.45	793,063.40	737,999.57	869,544.40
Other Interest Charges						
Customers' Deposits	87,793.65	93,662.30	1,051,013.53	1,012,693.78	1,140,333.15	1,078,845.52
Other Tax Deficiencies	-	-	16,537.70	456.08	13,113.70	456.08
Interest on DSM Cost Recovery	30,911.66	-	30,911.66	-	30,911.66	-
Interest on Debt to Associated Companies	291,733.16	225,735.02	2,203,692.02	6,078,012.58	2,547,399.70	6,329,112.83
AFUDC Borrowed Funds	(181,388.35)	(117,189.39)	(1,859,353.04)	(833,067.74)	(1,982,091.93)	(889,745.44)
Other Interest Expense	88,074.26	-	840,334.64	301.29	840,334.64	301.29
Total	317,124.38	202,207.93	2,283,136.51	6,258,395.99	2,590,000.92	6,518,970.28
Total Interest	6,242,982.87	5,038,244.86	65,467,214.63	50,380,284.47	71,006,174.65	53,952,618.66

December 19, 2008

Kentucky U. ..es Company
Analysis of Taxes Charged
November 30, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,160,101.01	1,067,735.01	11,951,111.11	10,454,624.60
Unemployment	11,524.14	4,498.75	154,872.85	141,924.30
FICA	414,542.05	737,488.56	5,376,070.13	5,390,474.50
Public Service Commission Fee	149,395.89	149,209.73	1,642,237.78	1,578,396.36
Federal Income	6,064,378.74	5,390,081.89	34,777,998.87	35,431,167.30
State Income	836,358.02	1,036,554.22	9,294,575.26	11,777,331.35
Miscellaneous	2,915.21	2,498.68	73,031.83	(52,081.34)
Total Charged to Operating Expense	8,639,215.06	8,388,066.84	63,269,897.83	64,721,837.07
Taxes Charged to Other Accounts	(5,466,511.68)	1,407,734.34	19,229,400.78	1,215,154.69
Taxes Accrued on Intercompany Accounts	(137,348.87)	(163,837.80)	(1,966,571.45)	(2,140,873.70)
Total Taxes Charged	3,035,354.51	9,631,963.38	80,532,727.16	63,796,118.06

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,455,854.42	12,336,043.57	12,537,905.90	6,253,992.09
Unemployment	36,767.25	67,912.37	104,149.71	529.91
FICA	497,417.13	5,123,837.94	5,196,185.40	425,069.67
Federal Income	(5,097,779.62)	50,923,994.24	45,826,214.62	-
State Income	1,103,849.76	8,384,374.30	4,369,675.24	5,118,548.82
Kentucky Sales and Use Tax	618,307.69	3,605,233.69	3,627,049.91	596,491.47
Miscellaneous	18,792.54	91,331.05	80,895.90	29,227.69
Totals	3,633,209.17	80,532,727.16	71,742,076.68	12,423,859.65

December 19, 2008

Kentucky . , Company
Summary of Utility Plant
November 30, 2008

	Beginning Balance	Additions	Retirements	Transfers/ Adjustments	Net Additions	Ending Balance
101 Utility Plant in Service						
Electric						
Electric Distribution	1,038,231,358.94	51,371,664.46	(70,750.49)	8,166,197.45	59,467,111.42	1,097,698,470.36
Electric General Plant	97,982,327.01	8,324,653.32	(172.34)	(0.06)	8,324,480.92	106,306,807.93
Electric Hydro Production	10,974,095.24	904,252.50	(47,183.50)	-	857,069.00	11,831,164.24
Electric Intangible Plant	24,723,054.27	2,106,889.15	-	-	2,106,889.15	26,829,943.42
Electric Other Production	497,590,724.76	1,524,046.02	-	-	1,524,046.02	499,114,770.78
Electric Steam Production	1,678,193,956.12	38,626,002.03	(4,013,243.99)	-	34,612,758.04	1,712,806,714.16
Electric Transmission	520,264,996.06	2,512,571.39	(216,281.65)	(8,166,197.45)	(5,869,907.71)	514,395,088.35
Total 101 Accounts	3,867,960,512.40	105,370,078.87	(4,347,631.97)	(0.06)	101,022,446.84	3,968,982,959.24
105 Plant Held for Future Use						
Electric						
Electric Distribution	-	-	-	10,137,561.95	10,137,561.95	10,137,561.95
Total 105001	-	-	-	10,137,561.95	10,137,561.95	10,137,561.95
106 Completed Construction Not Classified						
Electric						
Electric Distribution	-	118,097,334.35	-	-	118,097,334.35	118,097,334.35
Electric General Plant	-	2,584,002.52	-	-	2,584,002.52	2,584,002.52
Electric Hydro Production	-	11,732.37	-	-	11,732.37	11,732.37
Electric Intangible Plant	-	977,572.37	-	-	977,572.37	977,572.37
Electric Other Production	-	210,168.91	-	-	210,168.91	210,168.91
Electric Steam Production	-	307,830,864.63	-	-	307,830,864.63	307,830,864.63
Electric Transmission	-	12,472,194.10	-	-	12,472,194.10	12,472,194.10
Total 106 Accounts	-	442,183,869.25	-	-	442,183,869.25	442,183,869.25
121 Nonutility Property						
Common						
Nonutility Property	179,120.94	-	-	-	-	179,120.94
Total 121001	179,120.94	-	-	-	-	179,120.94
107 Construction Work In Progress						
Electric						
Electric	1,071,388,625.97	65,895,504.62	-	-	65,895,504.62	1,137,284,130.59
Total 107001	1,071,388,625.97	65,895,504.62	-	-	65,895,504.62	1,137,284,130.59
Total Plant (Non-CWIP)	3,868,139,633.34	547,553,948.12	(4,347,631.97)	10,137,561.89	553,343,878.04	4,421,483,511.38
Total Plant + CWIP	4,939,528,259.31	613,449,452.74	(4,347,631.97)	10,137,561.89	619,239,382.66	5,558,767,641.97
Total Plant + CWIP - Nonutility (BS)	4,939,349,138.37	613,449,452.74	(4,347,631.97)	10,137,561.89	619,239,382.66	5,558,588,521.03

December 19, 2008

Kentuck[illegible] Company

Summary of Utility Plant - Res[illegible] for Depreciation of Utility Plant

November 30, 2008

	Beginning Balance	Accruals	Retirements	Transfers/ Adjustments	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Ending Balance
Life Reserve									
Electric Distribution	(359,033,190.58)	(22,830,944.97)	70,750.49	(3,158,577.30)	-	-	-	(56,231.97)	(385,008,194.33)
Electric Distribution - ARO	(6,595.17)	223.99	-	-	-	-	-	-	(6,371.18)
Electric General Plant	(48,907,493.20)	(4,630,259.76)	172.34	-	-	-	-	-	(53,537,580.62)
Electric Hydro Production	(7,500,880.74)	(126,122.14)	47,183.50	-	-	-	-	-	(7,579,819.38)
Electric Hydro Production - ARO	(1,760.08)	(47.52)	-	-	-	-	-	-	(1,807.60)
Electric Other Production	(115,416,383.68)	(15,510,595.06)	-	-	-	-	-	-	(130,926,978.74)
Electric Other Production - ARO	(29,672.77)	(2,192.22)	-	-	-	-	-	-	(31,864.99)
Electric Steam Production	(858,329,896.41)	(46,770,945.28)	4,013,243.99	-	-	-	-	-	(901,087,597.70)
Electric Steam Production - ARO	(4,283,726.18)	(306,898.76)	-	-	-	-	-	-	(4,590,624.94)
Electric Transmission	(202,812,741.57)	(8,268,609.53)	216,281.65	3,158,577.30	-	-	-	(76,966.41)	(207,783,458.56)
Electric Transmission - ARO	(4,014.63)	(550.44)	-	-	-	-	-	-	(4,565.07)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,596,326,355.01)	(98,446,941.69)	4,347,631.97	-	-	-	-	(133,198.38)	(1,690,558,863.11)
Cost of Removal									
Electric Distribution	(183,781,285.19)	(11,831,410.85)	-	(3,259,514.69)	-	100,086.15	-	-	(198,772,124.58)
Electric General Plant	122,007.03	0.05	-	-	-	30,318.48	-	-	152,325.56
Electric Hydro Production	(785,169.42)	(43,674.42)	-	-	-	163,306.47	-	-	(665,537.37)
Electric Other Production	(1,700,260.79)	-	-	-	-	-	-	-	(1,700,260.79)
Electric Steam Production	(78,172,998.47)	(7,753,440.20)	-	-	-	1,022,090.13	-	-	(84,904,348.54)
Electric Transmission	(136,721,262.34)	(6,996,880.30)	-	3,259,514.69	-	467,060.64	-	(141,895.82)	(140,133,463.13)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(401,038,969.18)	(26,625,405.72)	-	-	-	1,782,861.87	-	(141,895.82)	(426,023,408.85)
Salvage									
Electric Distribution	43,281,298.84	2,680,603.59	-	-	-	-	(38,132.96)	-	45,923,769.47
Electric General Plant	122,217.82	23,503.03	-	-	-	-	-	-	145,720.85
Electric Hydro Production	44,115.00	2,009.09	-	-	-	-	-	-	46,124.09
Electric Other Production	618,891.61	-	-	-	-	-	-	-	618,891.61
Electric Steam Production	13,073,178.13	1,308,256.54	-	-	-	-	-	-	14,381,434.67
Electric Transmission	21,191,803.27	1,103,767.51	-	-	-	-	(5,819.89)	-	22,289,750.89
Nonutility Property	-	-	-	-	-	-	-	-	-
	78,331,504.67	5,118,139.76	-	-	-	-	(43,952.85)	-	83,405,691.58
Total Reserves									
Electric Distribution	(499,533,176.93)	(31,981,752.23)	70,750.49	(6,418,091.99)	-	100,086.15	(38,132.96)	(56,231.97)	(537,856,549.44)
Electric Distribution - ARO	(6,595.17)	223.99	-	-	-	-	-	-	(6,371.18)
Electric General Plant	(48,663,268.35)	(4,606,756.68)	172.34	-	-	30,318.48	-	-	(53,239,534.21)
Electric Hydro Production	(8,241,935.16)	(167,787.47)	47,183.50	-	-	163,306.47	-	-	(8,199,232.66)
Electric Hydro Production - ARO	(1,760.08)	(47.52)	-	-	-	-	-	-	(1,807.60)
Electric Other Production	(116,497,752.86)	(15,510,595.06)	-	-	-	-	-	-	(132,008,347.92)
Electric Other Production - ARO	(29,672.77)	(2,192.22)	-	-	-	-	-	-	(31,864.99)
Electric Steam Production	(923,429,716.75)	(53,216,128.94)	4,013,243.99	-	-	1,022,090.13	-	-	(971,610,511.57)
Electric Steam Production - ARO	(4,283,726.18)	(306,898.76)	-	-	-	-	-	-	(4,590,624.94)
Electric Transmission	(318,342,200.64)	(14,161,722.32)	216,281.65	6,418,091.99	-	467,060.64	(5,819.89)	(218,862.23)	(325,627,170.80)
Electric Transmission - ARO	(4,014.63)	(550.44)	-	-	-	-	-	-	(4,565.07)
Nonutility Property	-	-	-	-	-	-	-	-	-
	(1,919,033,819.52)	(119,954,207.65)	4,347,631.97	-	-	1,782,861.87	(43,952.85)	(275,094.20)	(2,033,176,580.38)
Retirement Work In Process									
Electric	4,401,887.42	-	-	-	(1,463,814.82)	6,373,909.25	(800,990.43)	(1,797,397.25)	6,713,594.17
	4,401,887.42	-	-	-	(1,463,814.82)	6,373,909.25	(800,990.43)	(1,797,397.25)	6,713,594.17
YTD Activity	(1,923,435,706.94)	(119,954,207.65)	4,347,631.97	-	1,463,814.82	(4,591,047.38)	757,037.58	1,522,303.05	(2,026,462,986.21)
Amortization									
Electric	(16,822,592.14)	(4,767,362.34)	-	-	-	-	-	-	(21,589,954.48)
	(16,822,592.14)	(4,767,362.34)	-	-	-	-	-	-	(21,589,954.48)
Depreciation & Amortization Total	(1,940,258,299.08)	(124,721,569.99)	4,347,631.97	-	1,463,814.82	(4,591,047.38)	757,037.58	1,522,303.05	(2,048,052,940.69)
Utility Plant at Original Cost Less Reserve for Depreciation & Amortization (Excl nonutility)	2,999,090,839.29								3,510,535,580.34

December 19, 2008

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(s)
Sponsoring Witness: S. Bradford Rives

Description of Filing Requirement:

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

Response:

The below-listed documents are provided. Please note that KU terminated its status as an SEC registrant and ceased filing periodic reports under the Securities and Exchange Act of 1934 effective March 1, 2007. KU's deregistration occurred in connection with a restructuring transaction to refinance various issuances of secured debt for the purpose of converting them to unsecured debt, which restructuring transaction and the SEC deregistration, were considered by the Kentucky Commission in Case No. 2006-00390 and discussed in the order dated January 22, 2007.

- 2008 Annual Financial Statements and Additional Information
- 2007 Annual Financial Statements and Additional Information
- 2009 3rd Quarter Financial Statements and Additional Information
- 2009 2nd Quarter Financial Statements and Additional Information
- 2009 1st Quarter Financial Statements and Additional Information
- 2008 3rd Quarter Financial Statements and Additional Information
- 2008 2nd Quarter Financial Statements and Additional Information
- 2008 1st Quarter Financial Statements and Additional Information
- Report of Certain Material Changes - January 2009 – December 2009
- Report of Certain Material Changes – January 2008 – December 2008

2008 - Annual Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

As of and For the Years Ended December 31, 2008 and 2007

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AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	KU
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
GHG	Greenhouse Gas
Gwh	Gigawatt hours or one thousand Mwh
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PCB	Polychlorinated Biphenyl

PJM	PJM Interconnection
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Services
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

Business

GENERAL

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 508,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

OPERATIONS

The sources of operating revenues and volumes of sales for the years ended December 31, 2008 and 2007, were as follows:

	2008		2007	
	Revenues (millions)	Volumes (Gwh)	Revenues (millions)	Volumes (Gwh)
Residential	$ 462	6,803	$ 430	6,847
Industrial & Commercial	636	10,709	597	11,047
Municipals	92	1,971	90	2,058
Other Retail	108	1,707	98	1,691
Wholesale	106	2,894	58	1,582
Total	$ 1,404	24,084	$ 1,273	23,225

KU's peak load was 4,476 Mw on January 25, 2008, when the temperature reached a low of 5 degrees Fahrenheit in Lexington, which was a new record.

The Company's power generating system includes coal-fired units operated at its four steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2008, KU owned and operated the following generating stations while maintaining a 13%-15% reserve margin:

	Summer Capability Rating (Mw)
Steam Stations:	
Tyrone – Woodford County, KY	71
Green River – Muhlenberg County, KY	163
E.W. Brown – Mercer County, KY	697
Ghent – Carroll County, KY	1,918
Total Steam Stations	2,849
Dix Dam Hydroelectric Station – Mercer County, KY	24
CT Generators (Peaking capability):	
E.W. Brown – Mercer County, KY*	757
Haefling – Fayette County, KY	36
Paddy's Run – Jefferson County, KY *	74
Trimble County – Trimble County, KY *	632
Total CT Generators	1,499
Total Capability Rating	4,372

* Some of these units are jointly owned with LG&E. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.

At December 31, 2008, KU's transmission system included 113 substations (39 of which are shared with the distribution system) with a total capacity of approximately 17,700 MVA and approximately 4,040 miles of lines. The distribution system included 483 substations (39 of which are shared with the transmission system) with a total capacity of approximately 6,865 MVA, 14,133 miles of overhead lines and 2,151 miles of underground conduit.

KU has a purchase power agreement with OMU, owns 20% of EEI's common stock and owns 2.5% of OVEC's common stock. Additional information regarding these relationships is provided in Notes 1 and 9 of Notes to Financial Statements.

KU has contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements. See Note 2 of Notes to Financial Statements.

RATES AND REGULATIONS

E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In February 2007, KU completed a series of financial transactions that allowed it to cease periodic reporting under the Securities Exchange Act of 1934. See Note 7 of Notes to Financial Statements.

The Company is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of SFAS No. 71.

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in base electric rates. In conjunction with the filing of the application for a change in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008. In January 2009, KU, the AG, KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's base electric rates will decrease by $9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009, at which time the merger surcredit terminated. (See Notes 2 and 12 of Notes to Financial Statements)

In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to the wind storm.

In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates costs incurred of $66 million of expenses and $28 million of capital expenditures related to the restoration following the two storms. The Company expects to seek recovery of these costs from the Kentucky Commission.

For a further discussion of regulatory matters, see Notes 2 and 9 of Notes to Financial Statements.

COAL SUPPLY

Coal-fired generating units provided approximately 99% of KU's net Kwh generation for 2008. The remaining net generation for 2008 was provided by natural gas and oil fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. The Company has no nuclear generating units and has no plans to build any in the foreseeable future.

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

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2009 and beyond and normally augments its coal supply agreements with spot market purchases. The Company has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois and Ohio for the foreseeable future. With the installation of FGDs (SO_2 removal systems), KU expects its use of higher sulfur coal to increase. Coal is delivered to KU generating stations by a mix of transportation modes, including barge, truck and rail.

ENVIRONMENTAL MATTERS

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued the Company permits for various activities subject to air quality, water quality and waste management laws and regulations. KU is also subject to extensive existing or potential environmental regulation. See Note 9 of Notes to Financial Statements for additional information.

STATE ENERGY POLICY

In November 2008, the Commonwealth of Kentucky issued an action plan to create efficient, sustainable energy solutions and strategies and move toward state energy independence. The plan outlines the following seven strategies to work toward these goals:

- Improve the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet
- Increase Kentucky's use of renewable energy
- Sustainably grow Kentucky's production of biofuels
- Develop a coal-to-liquids industry in Kentucky to replace petroleum-based liquids
- Implement a major and comprehensive effort to increase gas supplies, including coal-to-gas in Kentucky
- Initiate aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky
- Examine the use of nuclear power for electricity generation in Kentucky

Legislative and regulatory actions as a result of these proposals and their impact on KU, which may be significant, cannot currently be predicted.

COMPETITION

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation which implements a hybrid model of cost-based regulation. See Note 2 of Notes to Financial Statements for additional information.

EMPLOYEES AND LABOR RELATIONS

KU had 977 full-time regular employees at December 31, 2008, 153 of which were operating, maintenance and construction employees represented by the IBEW Local 2100 and the United Steelworkers of America ("USWA") Local 9447-01. Effective August 1, 2006, the Company and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. Wage re-openers were negotiated and agreed to in July 2007 and July 2008. The Company and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers.

OFFICERS OF THE COMPANY

At December 31, 2008:

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	53	Chairman of the Board, President and Chief Executive Officer	May 2001
John R. McCall	65	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994
S. Bradford Rives	50	Chief Financial Officer	September 2003
Chris Hermann	61	Senior Vice President – Energy Delivery	February 2003
Paula H. Pottinger	51	Senior Vice President – Human Resources	January 2006
Paul W. Thompson	51	Senior Vice President – Energy Services	June 2000
Wendy C. Welsh	54	Senior Vice President – Information Technology	December 2000
Michael S. Beer	50	Vice President – Federal Regulation and Policy	September 2004
Lonnie E. Bellar	44	Vice President – State Regulation and Rates	August 2007
Kent W. Blake	42	Vice President – Corporate Planning and Development	August 2007
D. Ralph Bowling	51	Vice President – Power Production	June 2008
Laura G. Douglas	59	Vice President – Corporate Responsibility and Community Affairs	November 2007
R. W. Chip Keeling	52	Vice President – Communications	March 2002
John P. Malloy	47	Vice President – Energy Delivery – Retail Business	April 2007
Dorothy E. O'Brien	55	Vice President and Deputy General Counsel – Legal and Environmental Affairs	October 2007
George R. Siemens	59	Vice President – External Affairs	January 2001
David S. Sinclair	47	Vice President – Energy Marketing	January 2008
P. Greg Thomas	52	Vice President – Energy Delivery – Distribution Operations	April 2007
John N. Voyles, Jr.	54	Vice President – Transmission & Generation Services	June 2008
Daniel K. Arbough	47	Treasurer	December 2000
Valerie L. Scott	52	Controller	January 2005

Officers generally serve in the same capacities at KU and its affiliates, E.ON U.S. and LG&E.

Risk Factors

KU is subject to a number of risks, including without limitation, those listed below and elsewhere in this document. Such risks could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by KU.

The rates that KU charges customers, as well as other aspects of the business, are subject to significant and complex governmental regulation. Federal and state entities regulate many aspects of utility operations, including financial and capital structure matters; siting and construction of facilities; rates, terms and conditions of service and operations; mandatory reliability and safety standards; accounting and cost allocation methodologies; tax matters; acquisition and disposal of utility assets and securities and other matters. Such regulations may subject KU to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge KU's rate request and ultimately reduce, alter or limit the rates KU seeks.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues. The resulting changes to transmission and wholesale power market structures and prices are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which KU participates.

Transmission and interstate market activities of KU, as well as other aspects of the business, are subject to significant FERC regulation. KU's business is subject to extensive regulation under the FERC covering matters including rates charged to transmission users, market-based or cost-based rates applicable to wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, including but not limited to the areas of market-based tariff authority, RSG resettlements in the MISO market, mandatory reliability standards and natural gas transportation regulation can affect the earnings, operations or other activities of KU.

KU undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs. The completion of these facilities without delays or cost overruns is subject to risks in many areas, including approval and licensing; permitting; land acquisition; construction problems or delays; increases in commodity prices or labor rates; contractor performance; weather and geological issues; and political, labor and regulatory developments.

KU's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental 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. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions.

KU's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters. These weather or man-made factors can significantly affect KU's finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets or impacting future growth.

KU is subject to risks regarding potential developments concerning global climate change matters. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG capture and sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation; changes in transmission grid construction, operation or pricing to accommodate GHG-related initiatives; or other measures. KU's generation fleet is predominantly coal-fired and may be highly impacted by developments in this area.

KU's business is subject to risks associated with local, national and worldwide economic conditions. The consequences of a prolonged recession may include a lower level of economic activity and uncertainty or volatility regarding energy prices and the capital and commodity markets. A lower level of economic activity might result in a decline in energy consumption and slower customer growth, which may adversely affect KU's future revenues and growth. Instability in the financial markets, as a result of recession or otherwise, also may affect the cost of capital and KU's ability to raise capital. A deterioration of economic conditions may lead to decreased production by KU's industrial customers and, therefore, lower consumption of electricity. Decreased economic activity may also lead to fewer commercial and industrial customers and increased unemployment, which may in turn impact residential customers' ability to pay. Further, worldwide economic activity has an impact on the demand for basic commodities needed for utility infrastructure. Changes in global demand may impact the ability to acquire sufficient supplies and the cost of those commodities may be higher than expected.

KU's business is concentrated in the Midwest United States, specifically Kentucky. Local and regional economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers, can affect the demand for energy. Significant activities in KU's service territory include automotive; aluminum and steel smelting and fabrication; chemical processing; coal, mineral and ceramic-related activities; educational institutions; health care facilities; paper and pulp processing and water utilities.

KU is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment. Operation of power plants and transmission and distribution facilities subjects KU to many risks, including the breakdown or failure of equipment; accidents; labor disputes; delivery/transportation problems; disruptions of fuel supply and performance below expected levels.

KU could be negatively affected by rising interest rates, downgrades to company or bond insurer credit ratings that could impact the Company's bond credit ratings or other negative developments in its ability to access capital markets. In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund its significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, KU is sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing steps necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs to KU.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business. General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to KU.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages

and other employee-related matters. Risks include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, market fluctuations, interest rates and actuarial matters. The Company is also subject to risk related to changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

KU is subject to risks associated with federal and state tax regulations. Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact KU's results of operations. KU is required to make judgments in order to estimate its obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. KU also estimates its ability to utilize tax benefits and tax credits. Due to the revenue needs of the states and jurisdictions in which KU operates, various tax and fee increases may be proposed or considered. KU cannot predict whether legislation or regulation will be introduced or the effect on the Company of any such changes. If enacted, any changes could increase tax expense and could have a negative impact on KU's results of operations and cash flows.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including base rate increase proceedings, TC2 proceedings, Kentucky Commission, FERC proceedings and other rates or regulatory matters affecting KU, see Notes 2 and 9 of Notes to Financial Statements.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent or potential regulations; items regarding notices of violations and other emissions proceedings; global warming or climate change matters and other environmental items affecting KU, see Note 9 of Notes to Financial Statements.

Litigation

For a discussion of litigation matters, see Note 9 of Notes to Financial Statements.

Other

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

Selected Financial Data

(in millions)	Years Ended December 31				
	2008	2007	2006	2005	2004
Operating revenues	$ 1,404	$ 1,273	$ 1,210	$ 1,207	$ 995
Net operating income	$ 259	$ 268	$ 235	$ 202	$ 228
Net income	$ 158	$ 167	$ 152	$ 112	$ 134
Total assets	$ 4,508	$ 3,796	$ 3,148	$ 2,756	$ 2,610
Long-term obligations (including amounts due within one year)	$ 1,532	$ 1,264	$ 843	$ 746	$ 726

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during 2008 and 2007 and should be read in connection with the financial statements and notes thereto.

Forward Looking Statements

Some of the following discussion may contain forward-looking statements that are subject to risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may materially vary. Factors that could cause actual results to materially differ include, but are not limited to: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; actions by credit rating agencies and other factors described from time to time in KU's reports, including those noted in the Risk Factors section of this report.

RESULTS OF OPERATIONS

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

Net Income

Net income in 2008 decreased $9 million compared to 2007. The decrease was primarily the result of increased operating expenses ($140 million) and increased interest expense ($16 million), partially offset by increased operating revenues ($131 million), decreased income taxes ($9 million), increased equity in earnings ($4 million) and increased other income – net ($3 million).

Revenues

Revenues in 2008 increased $131 million primarily due to:

- Increased fuel costs billed to customers through the FAC ($52 million) due to increased fuel prices
- Increased wholesale sales ($46 million) due to higher sales volumes and prices. Volumes increased to LG&E ($34 million) and third-parties ($10 million) as a result of excess generation made available by LG&E via a mutual agreement. KU sells its higher cost electricity to LG&E for its wholesale sales and KU purchases LG&E's lower cost electricity to serve its native load. Both KU and LG&E experienced lower native load requirements due to milder weather, the weakening economy and increased generation due to fewer scheduled coal-fired generation unit outages during 2008, resulting in higher volumes available for wholesale sales. Pricing to third-parties increased as a result of higher fuel costs ($2 million).
- Increased ECR surcharge ($43 million) due to increased recoverable capital spending
- Increased DSM cost recovery ($2 million) due to additional conservation programs
- Increased transmission sales ($2 million) due to higher sales to LG&E
- Decreased merger surcredit ($2 million) due to a lower rate approved by the Kentucky Commission in June 2008
- Decreased VDT surcredit ($1 million) due to its termination in August 2008
- Decreased retail sales volumes delivered ($17 million) due to 26% decrease in cooling degree days and weakening economic conditions

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $52 million in 2008 primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($39 million)
- Increased generation ($13 million) due to increased utilization of coal-fired generation units as a result of fewer scheduled outages in 2008

Power purchased expense increased $53 million in 2008 primarily due to:

- Increased prices for purchases used to serve retail customers ($24 million) due to higher market prices, influenced by higher fuel costs
- Increased power purchased from LG&E via a mutual agreement due to higher volumes ($8 million) and higher prices ($8 million). KU purchases LG&E's lower cost electricity to serve its native load ($16 million). LG&E was able to provide higher volumes due to its reduced native load requirements as a result of milder weather and the weakening economy.
- Increased third-party power purchase volume for native load ($5 million) due to increased unscheduled coal-fired generation unit outages
- Increased demand payments ($7 million) for energy purchased on a long term contract
- Increased expenses ($1 million) due to activities in the PJM market for the entire year of 2008 compared to only one quarter in 2007

Other operation and maintenance expenses increased $20 million in 2008 primarily due to increased other operation expenses ($16 million) and increased maintenance expenses ($4 million).

Other operation expenses increased $16 million in 2008 primarily due to:

- Increased outside services ($4 million) due to increased legal expenses as a result of on-going litigation, mainly with OMU
- Increased cost of consumables ($4 million) due to contract pricing and commissioning and start up costs of FGDs
- Increased transmission expense ($2 million) due to increased native load purchases from LG&E and the additional costs to comply with growing SERC and NERC Mandatory Reliability Standards
- Increased distribution expense ($2 million) due to storm restoration
- Increased uncollectible accounts ($2 million) due to the weakening economy
- Increased property taxes ($2 million) due to net decrease in expense in 2007 as a result of the application of coal tax credits

Other maintenance expenses increased $4 million in 2008 primarily due to increased maintenance of overhead conductors and devices ($4 million) resulting from storm restoration.

Equity earnings in EEI increased $4 million in 2008 primarily due to an increased average price per Mwh sold in 2008 over the price for 2007.

Other income – net increased $3 million in 2008 primarily due to:

- Increased $3 million due to allowance for funds used during construction related to several large multi-year projects
- Increased $1 million due to net losses on the sale of property in 2007

- Decreased $1 million due to settlement for Brown Station new source review litigation and related programs

Interest expense increased $16 million in 2008 primarily due to increased interest expense to affiliated companies ($17 million) due to additional debt, partially offset by decreased interest expense ($1 million) due to interest received on reacquired debt.

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the Notes to Financial Statements. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment.

Critical accounting policies and estimates including unbilled revenue, allowance for doubtful accounts, regulatory mechanisms, pension and postretirement benefits and income taxes are detailed in Notes 1, 2, 5, 6 and 9 of Notes to Financial Statements.

Recent Accounting Pronouncements. Recent accounting pronouncements affecting KU are detailed in Note 1 of Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

KU uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent mainly to fund construction of plant and equipment. As of December 31, 2008, KU had a working capital deficiency of $183 million, primarily due to the terms of certain tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. See Note 7 of Notes to Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

E.ON U.S. sponsors pension and postretirement benefit plans for its employees. The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The market value of the combined investments within the plans declined by approximately 29% for the year ended December 31, 2008 due to the recent volatility in the capital markets. The benefit plan assets and obligations of E.ON U.S. and KU are remeasured annually using a December 31 measurement date. Investment losses resulted in an increase to the plans' unfunded status upon actuarial revaluation of the plans. Changes in the value of plan assets did not impact the income statement for 2008; however, reduced benefit plan assets will result in increased benefit costs in future years and may increase the amount, and accelerate the timing of, required future funding contributions. The Company anticipates its 2009 pension cost will be approximately $20 million higher than 2008. The amount of future funding will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The amount of such contributions cannot be determined at this time.

Operating Activities

The 2008 net decrease in cash provided by operations was $10 million and was primarily the result of decreases in cash due to changes in:

- Materials and supplies ($55 million) primarily due to increased fuel inventory volumes and higher fuel costs
- Earnings, net of non-cash items ($15 million)
- Other ($10 million) primarily due to changes in utility plant and customer advances for construction
- Environmental cost recovery receivable ($8 million) due to increased recoverable capital spending
- Prepayment and other current assets ($2 million)
- Wind storm regulatory asset ($2 million) due to new regulatory asset for Hurricane Ike restoration expenses
- Property and other taxes payable ($1 million)

These decreases were partially offset by cash provided by changes in:

- Accounts receivable ($28 million) due to timing of payments received from IMEA and IMPA
- Accounts payable ($24 million) primarily due to construction accruals related to FGD projects and TC2
- Pension and postretirement funding ($14 million) due to contributions made in 2007
- Fuel adjustment clause receivable, net ($13 million) due to timing of collections
- Other current liabilities ($2 million)
- Accrued income taxes ($2 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities decreased $33 million in 2008 compared to 2007 primarily due to decreased capital expenditures of $55 million, partially offset by decreased restricted cash of $11 million, an asset transferred from LG&E of $10 million and decreased non-hedging derivative liability of $1 million. Restricted cash represents the escrowed proceeds of the pollution control bonds, which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash provided by financing activities decreased $15 million due to decreased long-term borrowings from affiliated company of $198 million, reacquisition of bonds of $80 million, retirement of pollution control bonds of $60 million and issuance of pollution control bonds of $1 million, partially offset by the retirement of first mortgage bonds of $107 million in 2007, increased infusions from E.ON U.S. of $70 million, decreased repayment of short-term borrowings from affiliate – net of $67 million, reissuance of reacquired bonds of $63 million and retirement of reacquired bonds of $17 million.

See Note 7 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three-year period ending December 31, 2011 to total approximately $1,325 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $360 million, on-going construction related to distribution assets totaling approximately $250 million, on-going construction related to generation assets totaling approximately $220 million, ash pond and landfill projects totaling approximately $185 million, construction of TC2 totaling approximately $165 million (including $30 million for environmental controls), the Brown SCR totaling approximately $110 million, and information technology projects of approximately $35 million. See Note 9 of Notes to Financial Statements for additional information.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See the Contractual Obligations table below and Note 9 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

KU has a variety of funding alternatives available to meet its capital requirements. KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds of up to $400 million available to the Company at market-based rates. Fidelia also provides long-term intercompany funding to KU. See Notes 7 and 8 of Notes to Financial Statements.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million. As of December 31, 2008, KU has borrowed $16 million of this authorized amount. See Note 8 of Notes to Financial Statements.

KU's debt ratings as of December 31, 2008, were:

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

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 7 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2008. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. See Statements of Capitalization.

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2009	2010	2011	2012	2013	Thereafter	Total
Short-term debt (a)	$ 16	$ -	$ -	$ -	$ -	$ -	$ 16
Long-term debt	-	33	-	50	175	1,274(b)	1,532
Interest on long-term debt to affiliated company (c)	66	66	65	63	58	441	759
Interest on fixed rate bonds (d)	2	2	2	2	2	23	33
Operating leases (e)	9	5	4	4	3	6	31
Unconditional power purchase obligations (f)	26	17	10	10	10	155	228
Coal and gas purchase obligations (g)	442	387	363	217	59	-	1,468
Postretirement benefit plan obligations (h)	6	6	7	7	7	36	69
Other obligations (i)	119	3	1	-	-	-	123
Total contractual cash obligations	$ 686	$ 519	$ 452	$ 353	$ 314	$ 1,935	$ 4,259

(a) Represents borrowings from affiliated company due within one year.
(b) Includes long-term debt of $228 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2023 to 2034.
(c) Represents future interest payments on long-term debt to affiliated company.
(d) Represents interest on fixed rate long-term bonds. Future interest obligations on variable rate long-term bonds cannot be quantified.
(e) Represents future operating lease payments.
(f) Represents future minimum payments under OMU and OVEC power purchase agreements through 2010 and 2026, respectively.
(g) Represents contracts to purchase coal and natural gas transportation. Obligations for 2014 and 2015 are indexed to future market prices and will not be included above until prices are set using the contracted methodology.
(h) Represents currently projected cash flows for the postretirement benefit plan as calculated by the actuary. For pension funding information see Note 5 of Notes to Financial Statements.
(i) Represents construction commitments, including commitments for TC2 and the FGDs.

CONTROLS AND PROCEDURES

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

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

KU is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework.* Management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2008 KU financial statements and additional information.

Kentucky Utilities Company
Statements of Income
(Millions of $)

	Years Ended December 31 2008	2007
OPERATING REVENUES:		
Total operating revenues (Note 11)	$ 1,404	$ 1,273
OPERATING EXPENSES:		
Fuel for electric generation	513	461
Power purchased (Notes 9 and 11)	221	168
Other operation and maintenance expenses	275	255
Depreciation and amortization (Note 1)	136	121
Total operating expenses	1,145	1,005
Net operating income	259	268
Equity in earnings of EEI (Note 1)	(30)	(26)
Other expense/(income) - net	(9)	(6)
Interest expense (Notes 7 and 8)	14	15
Interest expense to affiliated companies (Note 11)	58	41
Income before income taxes	226	244
Federal and state income taxes (Note 6)	68	77
Net income	$ 158	$ 167

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31 2008	2007
Balance January 1	$ 1,037	$ 870
Add net income	158	167
Balance December 31	$ 1,195	$ 1,037

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

Kentucky Utilities Company
Balance Sheets
(Millions of $)

	December 31 2008	December 31 2007
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 2	$ -
Restricted cash (Note 1)	10	11
Accounts receivable - less reserve of $3 million and $2 million in 2008 and 2007, respectively (Note 1)	165	172
Accounts receivable from affiliated companies (Note 11)	12	17
Materials and supplies (Note 1):		
Fuel (predominantly coal)	73	42
Other materials and supplies	36	34
Prepayments and other current assets	10	12
Total current assets	308	288
Other property and investments (Note 1)	29	29
Utility plant, at original cost (Note 1):	4,446	3,868
Less: reserve for depreciation	1,724	1,622
Total utility plant, net	2,722	2,246
Construction work in progress	1,176	1,071
Total utility plant and construction work in progress	3,898	3,317
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	127	28
Other	96	86
Cash surrender value of key man life insurance	39	37
Other assets	11	11
Total deferred debits and other assets	273	162
Total Assets	$ 4,508	$ 3,796

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

Kentucky Utilities Company
Balance Sheets (continued)
(Millions of $)

	December 31 2008	December 31 2007
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 7)	$ 228	$ 33
Notes payable to affiliated companies (Notes 8 and 11)	16	23
Accounts payable	161	160
Accounts payable to affiliated companies (Note 11)	38	48
Customer deposits	21	20
Other current liabilities	27	28
Total current liabilities	491	312
Long-term debt:		
Long-term bonds (Note 7)	123	300
Long-term debt to affiliated company (Note 7)	1,181	931
Total long-term debt	1,304	1,231
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	280	285
Accumulated provision for pensions and related benefits (Note 5)	186	83
Investment tax credit (Note 6)	80	55
Asset retirement obligations	32	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	329	310
Deferred income taxes	16	22
Other	20	10
Other liabilities	26	23
Total deferred credits and other liabilities	969	818
Commitments and contingencies (Note 9)		
COMMON EQUITY:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital (Note 11)	241	90
Retained earnings	1,174	1,016
Undistributed subsidiary earnings	21	21
Total retained earnings	1,195	1,037
Total common equity	1,744	1,435
Total Liabilities and Equity	$ 4,508	$ 3,796

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

Kentucky Utilities Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 158	$ 167
Items not requiring cash currently:		
Depreciation and amortization	136	121
Deferred income taxes - net	(13)	(5)
Investment tax credit - net	25	42
Provision for pension and postretirement plans	10	11
Other	1	(4)
Change in certain current assets and liabilities:		
Accounts receivable	12	(16)
Materials and supplies	(33)	22
Accounts payable	9	(15)
Accrued income taxes	4	2
Property and other taxes payable	(6)	(5)
Prepayments and other current assets	(1)	1
Other current liabilities	7	5
Pension and postretirement funding	(5)	(19)
Wind storm regulatory asset	(2)	-
Environmental cost recovery receivable	(9)	(1)
Fuel adjustment clause receivable, net	9	(4)
Other	(5)	5
Net cash provided by operating activities	297	307
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(690)	(745)
Assets transferred from affiliate	(10)	-
Change in non-hedging derivative liability	(1)	-
Change in restricted cash	1	12
Net cash used for investing activities	(700)	(733)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 7)	250	448
Short-term borrowings from affiliated company (Note 8)	201	289
Repayment of short-term borrowings from affiliated company	(208)	(363)
Retirement of first mortgage bonds	-	(107)
Issuance of pollution control bonds	77	78
Retirement of pollution control bonds	(60)	-
Acquisition of outstanding bonds	(80)	-
Reissuance of reacquired bonds	63	-
Retirement of reacquired bonds	17	-
Additional paid-in capital	145	75
Net cash provided by financing activities	405	420
Change in cash and cash equivalents	2	(6)
Cash and cash equivalents at beginning of year	-	6
Cash and cash equivalents at end of year	$ 2	$ -
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$ 50	$ 38
Interest on borrowed money	13	16
Interest to affiliated companies on borrowed money	53	29

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

Kentucky Utilities Company
Statements of Capitalization
(Millions of $)

	December 31 2008	December 31 2007
LONG-TERM DEBT (Note 7):		
Pollution control series:		
Mercer Co. 2000 Series A, due May 1, 2023, variable %	$ 13	$ 13
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2005 Series A, due June 1, 2035, variable %	-	13
Carroll Co. 2005 Series B, due June 1, 2035, variable %	-	13
Carroll Co. 2006 Series A, due June 1, 2036, variable %	-	17
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	54
Carroll Co. 2006 Series C, due June 1, 2036, variable %	-	17
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%	18	18
Trimble Co. 2007 Series A, due March 1, 2037, 6.0%	9	9
Carroll Co. 2008 Series A, due February 1, 2032, variable %	78	-
Total pollution control series	351	333
Notes payable to Fidelia:		
Due November 24, 2010, 4.24%, unsecured	33	33
Due January 16, 2012, 4.39%, unsecured	50	50
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, unsecured	75	75
Due December 19, 2014, 5.45%, unsecured	100	100
Due July 8, 2015, 4.735%, unsecured	50	50
Due December 21, 2015, 5.36%, unsecured	75	75
Due October 25, 2016, 5.675%, unsecured	50	50
Due June 20, 2017, 5.98%, unsecured	50	50
Due July 25, 2018, 6.16%, unsecured	50	-
Due August 27, 2018, 5.645%, unsecured	50	-
Due December 17, 2018, 7.035%, unsecured	75	-
Due October 25, 2019, 5.71%, unsecured	70	70
Due February 7, 2022, 5.69%, unsecured	53	53
Due May 22, 2023, 5.85%, unsecured	75	-
Due September 14, 2028, 5.96%, unsecured	100	100
Due June 23, 2036, 6.33%, unsecured	50	50
Due March 30, 2037, 5.86%, unsecured	75	75
Total notes payable to Fidelia	1,181	931
Total long-term debt outstanding	1,532	1,264
Less current portion of long-term debt	228	33
Long-term debt	1,304	1,231
COMMON EQUITY:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital (Note 11)	241	90
Retained earnings	1,174	1,016
Undistributed subsidiary earnings	21	21
Total retained earnings	1,195	1,037
Total common equity	1,744	1,435
Total capitalization	$ 3,048	$ 2,666

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

Note 1 - Summary of Significant Accounting Policies

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 508,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and net cash flows.

Regulatory Accounting. KU is subject to SFAS No. 71, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission or the Virginia Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. KU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Materials and Supplies. Fuel and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by KU. At December 31, 2008 and 2007, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments on the balance sheets consists of KU's investment in EEI, economic development loans provided to various communities in the service territory, KU's investment in OVEC, funds related to the long-term purchased power contract with OMU and non-utility plant.

Although KU holds investment interests in OVEC and EEI, it is not the primary beneficiary, therefore, neither are consolidated into the Company's financial statements. KU and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two coal-fired power plants, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual agreements, KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

As of December 31, 2008 and 2007, KU's investment in OVEC totaled less than $1 million and is accounted for under the cost method of accounting. The direct exposure to loss as a result of its involvement with OVEC is generally limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, KU anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding KU's ownership interests and power purchase rights.

KU owns 20% of the common stock of EEI, which owns and operates a 1,162-Mw generating station in southern Illinois. KU's investment in EEI is accounted for under the equity method of accounting and, as of December 31, 2008 and 2007, totaled $22 million and $23 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Utility Plant. Utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. KU has not recorded a significant allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.0% in 2008 and 3.2% in 2007 of average depreciable plant. Of the amount provided for depreciation at December 31, 2008 and 2007, approximately 0.5% was related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized using the straight line method, which approximates the effective interest method, over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received an investment tax credit related to TC2. See Note 6, Income Taxes. Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of KU's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. KU accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were $60 million and $59 million at December 31, 2008 and 2007, respectively.

Fuel Costs. The cost of fuel for generation is charged to expense as used.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting KU:

SFAS No. 161

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

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 was adopted effective January 1, 2008 and the Company elected not to fair value its eligible financial assets and liabilities.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Per FASB Staff Position 157-2, fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities will be adopted effective January 1, 2009.

Note 2 - Rates and Regulatory Matters

The Company is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of SFAS No. 71.

Kentucky Rate Case

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in base electric rates. In conjunction with the filing of the application for a change in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008. In January 2009, KU, the AG, KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's base electric rates will decrease by $9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009, at which time the merger surcredit terminated.

The VDT surcredit originated in December 2001, when the Kentucky Commission issued an Order approving a settlement agreement allowing KU to set up a regulatory asset of $54 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. The Order also provided for a surcredit to be included on customers' bills representing 40% of the annual savings derived from this initiative. For periods beginning January 1, 2006, the VDT surcredit had increased to $4 million per year.

In February 2006, KU and all parties to the proceeding reached a unanimous settlement agreement on the future ratemaking treatment of the VDT surcredit. Under the terms of the settlement agreement, the VDT surcredit continued at its current level until such time as KU filed for a change in base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement. In accordance with the Order, the VDT surcredit terminated in August 2008, the first billing month after the July 2008 filing for a change in base rates.

The merger surcredit originated as part of the LG&E Energy merger with KU Energy Corporation in 1998. It was based on estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted KU's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. These savings were provided in the form of a surcredit mechanism on customers' bills. In October 2003, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case in which the merger surcredit of $18 million per year would remain in place for another five-year term beginning July 1, 2003, and KU would file a plan for the merger surcredit six months before its expiration.

In December 2007, KU submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. In June 2008, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case which provided for a reduction in the merger surcredit to approximately $6 million for a 7-month period beginning July 2008, termination of the merger surcredit when new base rates went into effect on or after January 31, 2009, and that the annual merger surcredit be continued at an annual rate of $12 million thereafter should the Company not file for a change in base rates. In accordance with the Order, the merger surcredit was terminated effective February 6, 2009, with the implementation of new base rates.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requests a shift from current, all-in stated unit charge rates to an unbundled and formula rate. The revised rates represent varying increases of 6% to 7% from current charges and include a change from the all-in stated applicable return on equity of 11.8%. The proceeding involves data requests and hearings before the FERC, as well as data requests and filings by intervenors. In November 2008, the FERC issued an Order to suspend rates until May 1, 2009, at which time the applied for rates will become effective, subject to potential refund or adjustment commencing in October 2009, based upon the outcome of the proceedings. Concurrently with the progress of the FERC rate proceedings, KU and the municipal customers have commenced structured settlement negotiations overseen by the FERC.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

(in millions)	2008	2007
ARO	$ 28	$ 24
MISO exit	19	20
Unamortized loss on bonds	13	10
FAC	9	17
ECR	20	11
Hurricane Ike	2	-
Other	5	4
Subtotal	96	86
Pension and postretirement benefits	127	28
Total regulatory assets	$ 223	$ 114
Accumulated cost of removal of utility plant	$ 329	$ 310
Deferred income taxes – net	16	22
Other	20	10
Total regulatory liabilities	$ 365	$ 342

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. KU will recover this asset through the pension expense included in the calculation of base rates with the Kentucky Commission and will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. Approval for the recovery of this asset was received from the Kentucky Commission as part of the 2008 base rate case and KU will seek recovery of this asset in future proceedings with the Virginia Commission. KU currently earns a rate of return on remaining regulatory assets, including other regulatory assets comprised of VDT costs (2007 only), merger surcredit and deferred storm costs. Other regulatory assets also include KCCS funding (see CMRG and KCCS Contributions below), FERC jurisdictional pension expense and rate case expenses. KU will seek recovery of the KCCS funding in the next base rate case and received approval for the recovery of the rate case expenses as part of the 2008 base rate case. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO as part of the settlement agreement in the 2008 base rate case.

ARO. A summary of KU's net ARO assets, regulatory assets, ARO liabilities, regulatory liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of SFAS No. 143,* and SFAS No. 143, *Accounting for Asset Retirement Obligations,* follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accumulated Cost of Removal	Cost of Removal Depreciation
As of December 31, 2006	$ 5	$ (28)	$ 22	$ (2)	$ 2	$ 1
ARO accretion	-	(2)	2	-	-	-
As of December 31, 2007	5	(30)	24	(2)	2	1
ARO accretion	-	(2)	2	-	-	-
Removal cost reclass	-	-	2	(2)	-	-
As of December 31, 2008	$ 5	$ (32)	$ 28	$ (4)	$ 2	$ 1

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2008 and 2007 for the ARO accretion and depreciation expense. KU AROs are primarily related to the final retirement of assets associated with generating units. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2008 or 2007. For the years ended December 31, 2008 and 2007, KU recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

MISO. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, KU has been operating under a FERC-approved open access-transmission tariff. KU now contracts with the Tennessee Valley Authority to act as its transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as its Independent Transmission Organization, pursuant to FERC requirements.

KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, the Company paid $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided KU with an immediate recovery of $1 million and an estimated $3 million over the next seven years for credits realized from other payments the MISO will receive, plus interest. In accordance with Kentucky Commission Orders approving the MISO exit, KU has established a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The approved base rate case settlement provided for MISO Schedule 10 expenses collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. KU and other parties have requested rehearing and a delay in any collection of RSG amounts. During January and February 2009, the FERC issued a deficiency letter in the proceeding relating to one prior Order, which delays collection of applicable RSG resettlements by the MISO pending further proceedings. Further developments in the RSG proceeding are expected to occur during 2009. Due to the numerous participants, complex principles at issue and changes from prior precedents, KU cannot predict the ultimate outcome of this matter. Based upon the recent FERC Orders, KU established a reserve during the fourth quarter of 2008, of less than $1 million relating to potential RSG resettlement costs for the period ended December 31, 2008.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight line method, which approximates the effective interest method, over the life of either the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

FAC. KU's retail rates contain an FAC, whereby increases and decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

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

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

In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in June 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged KU's recovery of approximately $5 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of KU's FAC charges and fuel procurement practices and indicated that KU was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six-month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both KU's and LG&E's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by KU and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by KU with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that KU fully complied with all audit recommendations and that no further reports are required.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under-collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU has agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kwh from the factor in effect for the April 2007 through March 2008 period.

ECR. Kentucky law permits KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

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

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

In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of KU's environmental surcharge. The Kentucky Commission issued an Order in

August 2008, approving the charges and credits billed through the ECR during the review period and the rate of return on capital.

In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. The Kentucky Commission issued a final Order in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

FERC Jurisdictional Pension Costs. Pension costs of $3 million incurred by the Company allocated to its FERC jurisdictional ratepayers. The Company will seek recovery of this asset in the next FERC rate proceeding.

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

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

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009. KU earns a return of these amortized costs, which are included in jurisdictional operating expenses.

Pension and Postretirement Benefits. KU adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87, *Employers' Accounting for Pensions,* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions,* both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, the Company has recorded a regulatory asset representing the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2008 and 2007, KU has segregated the cost of removal, previously embedded in accumulated depreciation, of $329 million and $310 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, KU has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. These regulatory assets and liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

DSM. KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Other Regulatory Matters

Storm Restoration. In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates costs incurred of $66 million of expenses and $28 million of capital expenditures related to the restoration following the two storms. The Company expects to seek recovery of these costs from the Kentucky Commission.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges KU from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, KU has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the SERC, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by KU and LG&E, together with the IMEA and the IMPA, was approved by the Kentucky Commission in November 2005.

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

The CCN for the remaining line has been challenged by certain Hardin County, Kentucky property owners. In August 2006, KU and LG&E obtained a successful dismissal of the challenge at the Franklin County circuit court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. The matter is currently before the Kentucky Supreme Court on a motion for discretionary review filed by KU and LG&E in May 2008. The motion, which seeks reversal of the appellate court decision and reinstatement of the circuit court dismissal of the challenge has not yet been ruled upon.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to such transmission line in some of these forums as well. During 2008, KU and LG&E obtained various successful rulings at the Hardin County circuit court establishing their condemnation and easement rights. In August 2008, the landowners appealed such rulings to the Kentucky Court of Appeals and received a stay preventing KU and LG&E access to the properties during the appeal. KU and LG&E have petitioned the appellate court to lift the stay and otherwise sustain the lower court ruling, but such matter has not yet been ruled upon. In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky, claiming that certain National Historic Preservation Act requirements were not fully complied with by the U.S. Army relating to easements for the line through Fort Knox. KU and LG&E are cooperating with the U.S. Army in its defense in this case.

KU and LG&E continue to actively engage in settlement negotiations with the Hardin County property owners involved in the appeals of the condemnation proceedings. During the fourth quarter of 2008, KU and LG&E entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line. KU and LG&E are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these transmission line approval and land acquisition proceedings.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and the Company provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

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

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. During May 2008, the SERC and KU agreed to a settlement involving penalties totaling less than $1 million related to KU's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC and KU are currently involved in settlement negotiations concerning a June 2008 self-report by KU relating to three other standards and an October 2008 self-report of a possible violation relating to an additional standard. SERC proceedings for these June and October self-reports are in the early stages and therefore the outcome is unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements with the SERC proceed to NERC and FERC review before becoming final. In December 2008, the SERC commenced a routine, periodic audit of KU and LG&E relating to certain designated reliability standards. This audit was completed during the first quarter of 2009 with no violations identified. While KU believes itself to be in compliance with the mandatory reliability standards, the Company cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, KU and LG&E filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. During September 2008, KU and LG&E responded to public comments and they are awaiting the Kentucky Commission staff report which will close this proceeding. KU and LG&E are not able to predict further proceedings at this time.

PUHCA 2005. E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months, for its large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Green Energy Riders. In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Home Energy Assistance Program. In July 2007, KU filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved the new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a $0.15 per month meter charge.

Collection Cycle Revision. As part of the base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreement approved in the rate case in February 2009, changed the due date for customer bill payments to 12 days after bill issuance for both KU and LG&E, and KU will implement a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission. In July 2008, KU filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

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

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008 and to complete the consideration by December 19, 2009.

Note 3 - Financial Instruments

The cost and estimated fair values of KU's non-trading financial instruments as of December 31 follow:

	2008		2007	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $228 million)	$ 351	$ 349	$ 333	$ 333
Long-term debt from affiliate	$ 1,181	$ 1,117	$ 931	$ 996

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market rates are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU is subject to the risk of fluctuating interest rates in the normal course of business. KU's policies allow the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2008, a 100 basis point change in the benchmark rate on KU's variable rate debt would impact pre-tax interest expense by $3 million annually. Although KU's policies allow for the use of interest rate swaps, as of December 31, 2008, KU had no interest rate swaps outstanding.

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

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

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2008 and 2007, had a maturity of less than one year and were considered to be in a liquid market.

KU maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2008, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. KU has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2008 and 2007, counterparty credit reserves were less than $1 million.

KU manages the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income. Unrealized gains and losses are included in other expense – net, whereas realized gains and losses are included in operating revenues. Unrealized losses were $1 million and unrealized gains were less than $1 million in 2008 and 2007, respectively. Realized gains and losses were less than $1 million in 2008 and 2007.

Effective January 1, 2008, KU adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. KU has classified the applicable financial assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157.

The following table sets forth by level within the fair value hierarchy KU's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2008. Cash collateral related to the energy trading and risk management contracts totals less than $1 million, is categorized as restricted cash and is a level 1 measurement based on the funds being held in liquid accounts. Liabilities accounted for at fair value total less than $1 million and use level 2 measurements. There are no level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Total Financial Assets	$ -	$ 1	$ 1

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

KU's customer receivables and revenues arise from deliveries of electricity to approximately 508,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. For the years ended December 31, 2008 and 2007, 100% of total revenue was derived from electric operations. During 2008, KU's 10 largest customers accounted for less than 10% of electric volumes.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. Wage re-openers were negotiated and agreed to in July 2007 and July 2008. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2008.

Note 5 - Pension and Other Postretirement Benefit Plans

KU employees benefit from both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The Company makes an annual lump sum contribution to the RIA, based on years of service and a percentage of covered compensation. The health care plans are contributory with participants' contributions adjusted annually. KU uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2008, and a statement of the funded status as of December 31 for KU's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Change in benefit obligation				
Benefit obligation at beginning of year	$ 284	$ 303	$ 76	$ 88
Service cost	5	6	1	2
Interest cost	18	17	5	5
Benefits paid, net of retiree contributions	(18)	(19)	(3)	(5)
Actuarial (gain)/loss and other	17	(23)	(4)	(14)
Benefit obligation at end of year	$ 306	$ 284	$ 75	$ 76
Change in plan assets				
Fair value of plan assets at beginning of year	$ 264	$ 253	$ 13	$ 12
Actual return on plan assets	(61)	17	(3)	-
Employer contributions	-	13	5	6
Benefits paid, net of retiree contributions	(18)	(19)	(3)	(5)
Administrative expenses and other	(2)	-	-	-
Fair value of plan assets at end of year	$ 183	$ 264	$ 12	$ 13
Funded status at end of year	$ (123)	$ (20)	$ (63)	$ (63)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheets and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Regulatory assets	$ 137	$ 37	$ (10)	$ (9)
Accrued benefit liability (non-current)	(123)	(20)	(63)	(63)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Benefit obligation	$ 306	$ 284	$ 75	$ 76
Accumulated benefit obligation	261	243	-	-
Fair value of plan assets	183	264	12	13

For discussion of the pension and postretirement regulatory assets, see Note 2, Rates and Regulatory Matters.

Components of Net Periodic Benefit Cost. The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and E.ON U.S. Services' employees, who are providing services to the utility. The E.ON U.S. Services' costs that are allocated to KU are approximately 46% and 45% of E.ON U.S. Services' total cost for 2008 and 2007, respectively.

(in millions)	Pension Benefits					
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
	2008	2008	2008	2007	2007	2007
Service cost	$ 6	$ 4	$ 10	$ 6	$ 4	$ 10
Interest cost	18	6	24	17	5	22
Expected return on plan assets	(21)	(5)	(26)	(21)	(5)	(26)
Amortization of prior service costs	1	1	2	1	1	2
Amortization of actuarial loss	-	-	-	2	1	3
Benefit cost at end of year	$ 4	$ 6	$ 10	$ 5	$ 6	$ 11

Other Postretirement Benefits

	KU 2008	Servco Allocation to KU 2008	Total KU 2008	KU 2007	Servco Allocation to KU 2007	Total KU 2007
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	5	-	5	5	-	5
Expected return on plan assets	(1)	-	(1)	(1)	-	(1)
Amortization of transitional obligation	1	-	1	1	-	1
Benefit cost at end of year	$ 6	$ 1	$ 7	$ 6	$ 1	$ 7

The assumptions used in the measurement of KU's pension benefit obligation are shown in the following table:

	2008	2007
Weighted-average assumptions as of December 31:		
Discount rate	6.25%	6.66%
Rate of compensation increase	5.25%	5.25%

The discount rates were determined by the December 29, 2008, Mercer Pension Discount Yield Curve. These discount rates were then lowered by 2 basis points for the average change in 4 bond indices, Citigroup High Grade Credit Index AAA/AA 10+ years, Lehman Brothers US AA Long Credit, Merrill Lynch US Corporate AA-AAA rated 10+ years and Merrill Lynch US Corporate AA rated 15+ years, for the period from December 29, 2008 to December 31, 2008.

The assumptions used in the measurement of KU's net periodic benefit cost are shown in the following table:

	2008	2007
Discount rate	6.66%	5.96%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $31 million positive or negative impact to the 2008 accumulated benefit obligation and an approximate $42 million positive or negative impact to the 2008 projected benefit obligation.

- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2008 pension expense.

Assumed Health care Cost Trend Rates. For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for 2008. The rate was assumed to decrease gradually to 5% by 2016 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2008 total of service and interest costs components and an increase or decrease of $4 million in year-end 2008 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following list provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts:

(in millions)	Pension Benefits	Other Postretirement Benefits	Medicare Subsidy Receipts
2009	$ 18	$ 7	$ 1
2010	18	7	-
2011	17	7	1
2012	17	7	-
2013	17	7	1
2014-18	94	39	3

Plan Assets. The following table shows KU's weighted-average asset allocation by asset category at December 31:

Pension Plans	Target Range	2008	2007
Equity securities	45% - 75%	55%	57%
Debt securities	30% - 50%	43	43
Other	0% - 10%	2	-
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. KU made a discretionary contribution to the pension plan of $13 million in January 2007. In addition, contributions to other postretirement benefit plans of $5 million and $6 million were made in 2008 and 2007, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. In 2009, KU anticipates making voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company has monitored developments regarding the Act and has made a number of elections to comply.

Thrift Savings Plans. KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were $3 million and $2 million for 2008 and 2007, respectively.

KU also makes contributions to retirement income accounts within its thrift savings plans for certain employees not covered by its noncontributory defined benefit pension plans. These employees consist mainly of those hired after December 31, 2005. KU makes these contributions based on years of service and the employees' wage and salary levels, and it makes them in addition to the matching contributions discussed above. The amounts contributed by KU under this arrangement equaled less than $1 million in 2008 and in 2007.

Note 6 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2005 and later years are open, Revenue Agent Reports for 2005-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2005-2006 tax years were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 filed federal income tax return. The tax year 2008 return is also being examined under the CAP program.

KU adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Additions and reductions of uncertain tax positions during 2008 and 2007 were less than $1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes.

Interest and penalties, if any, are recorded as operating expenses on the income statement and accrued expenses on the balance sheet. The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million as of December 31, 2008 and 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48, or through December 31, 2008.

Components of income tax expense are shown in the table below:

(in millions)		2008	2007
Current	- federal	$ 46	$ 28
	- state	10	13
Deferred	- federal – net	(10)	(5)
	- state – net	(3)	(1)
Investment tax credit – deferred		25	43
Amortization of investment tax credit		-	(1)
Total income tax expense		$ 68	$ 77

Current federal income tax expense increased and investment tax credit – deferred decreased primarily due to claiming $18 million less in investment tax credits in 2008. These investment tax credits are discussed further below. Current state income tax decreased due to coal credits claimed in 2008.

Deferred federal income tax decreased due to adjusting prior year estimates to actual based on the filed tax return.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $25 million and $43 million in 2008 and 2007, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

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

Components of net deferred tax liabilities included in the balance sheets are shown below:

(in millions)	2008	2007
Deferred tax liabilities:		
Depreciation and other plant-related items	$ 284	$ 292
Regulatory assets and other	40	40
Total deferred tax liabilities	324	332
Deferred tax assets:		
Income taxes due to customers	6	9
Pensions and related benefits	19	17
Liabilities and other	22	23
Total deferred tax assets	47	49
Net deferred income tax liability	$ 277	$ 283
Balance sheet classification		
Current assets	$ (3)	$ (2)
Non-current liabilities	280	285
Net deferred income tax liability	$ 277	$ 283

KU expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

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

	2008	2007
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	2.6	3.4
Reduction of income tax reserve	(0.2)	(0.4)
Qualified production activities deduction	(1.1)	(1.2)
Dividends received deduction related to EEI investment	(4.2)	(2.9)
Amortization of investment tax credits	(0.1)	(0.4)
Other differences	(1.9)	(1.9)
Effective income tax rate	30.1 %	31.6 %

State income taxes, net of federal benefit decreased due to state coal credits received in 2008. KU's effective income tax rate also decreased in 2008 as a result of increased dividends from its investment in EEI.

Note 7 - Long-Term Debt

As of December 31, 2008 and 2007, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2008:			
Noncurrent portion	Variable – 7.035%	2010-2037	$1,304
Current portion	Variable	2023-2034	$ 228
Outstanding at December 31, 2007:			
Noncurrent portion	Variable – 6.33%	2010-2037	$1,231
Current portion	Variable	2032	$ 33

Long-term debt includes $228 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County Series 2002 A and B, Muhlenberg County Series 2002 A, Mercer County Series 2002 A, Mercer County 2000 Series A, Carroll County 2004 Series A, Carroll County 2006 Series B and Carroll County 2008 Series A. Maturity dates for these bonds range from 2023 to 2034. The average annualized interest rate for these bonds during 2008 and 2007 was 1.75% and 3.72%, respectively.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless the Company defaults on the loan agreement. Subsequent to February 2007, the loan agreement is an unsecured obligation of KU. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At December 31, 2008, and 2007, KU had $9 million and $11 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the pollution control bonds are or were insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2008, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2008 and 2007, the average rate on the auction rate bonds was 4.50% and 3.96%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In 2008, the ratings of the following bonds were downgraded due to downgrades of the bond insurers or the termination of the bond insurance.

($ in millions)		Bond Rating			
		Moody's		S&P	
Tax Exempt Bond Issues	Principal	2008	2007	2008	2007
Mercer County 2000 Series A (1)	$ 13	Aaa	Aaa	AA+	AAA
Carroll County 2002 Series C	$ 96	A2	Aaa	A	AAA
Carroll County 2004 Series A (1)	$ 50	Aaa	Aaa	AA+	AAA
Carroll County 2005 Series A (2)	$ 13	-	Aaa	-	AAA
Carroll County 2005 Series B (2)	$ 13	-	Aaa	-	AAA
Carroll County 2006 Series A (2)	$ 17	-	Aaa	-	AAA
Carroll County 2006 Series B (1)	$ 54	Aaa	Aaa	AA+	AAA
Carroll County 2006 Series C (2)	$ 17	-	Aaa	-	AAA
Carroll County 2007 Series A	$ 18	A2	Aaa	A	AAA
Trimble County 2007 Series A	$ 9	A2	Aaa	A	AAA
Carroll County 2008 Series A (3)	$ 78	Aaa	-	AA+	-

(1) Bonds restructured in December 2008, and enhanced by letter of credit. Bond insurance terminated upon restructuring.
(2) Bonds defeased in October 2008. Proceeds combined with new bond allocation of $18 million to create new bond issue of $78 million without insurance enhancement.
(3) Bond issued in October 2008, without insurance enhancement. Bond restructured in December 2008, and enhanced by letter of credit.

In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. These conversions were completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively.

In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased the bonds from the remarketing agent. In October 2008, the Carroll County 2006 Series C bonds, along with the Carroll County 2005 Series A and B and Carroll County 2006 Series A bonds, were defeased.

In June 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2004 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, KU purchased the bonds from the remarketing agent.

In November 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series B and Carroll County 2008 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in December 2008. In connection with the conversions, the bond insurance policy associated with the bonds was terminated and replaced with letters of credit.

In December 2008, KU remarketed the Mercer County 2000 Series A and Carroll County 2004 Series A bonds. In connection with the conversions, the bond insurance policy associated with the bonds was terminated and replaced with letters of credit.

As of December 31, 2008, KU had no remaining repurchased bonds. KU refinanced and remarketed $63 million and refinanced $17 million of pollution control bonds that had been previously repurchased by the Company.

All of KU's first mortgage bonds were released and terminated in February 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2008 and 2007 was 1.75% and 3.72%, respectively.

Redemptions and maturities of long-term debt for 2008 and 2007 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	Pollution control bonds	$ 13	Variable	Secured	2035
2008	Pollution control bonds	$ 13	Variable	Secured	2035
2008	Pollution control bonds	$ 17	Variable	Secured	2036
2008	Pollution control bonds	$ 17	Variable	Secured	2036
2007	Pollution control bonds	$ 54	Variable	Secured	2024
2007	First mortgage bonds	$ 54	7.92%	Secured	2007

Issuances of long-term debt for 2008 and 2007 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	Due to Fidelia	$ 75	7.035%	Unsecured	2018
2008	Pollution control bonds	$ 78	Variable	Unsecured	2032
2008	Due to Fidelia	$ 50	6.16%	Unsecured	2018
2008	Due to Fidelia	$ 50	5.645%	Unsecured	2018
2008	Due to Fidelia	$ 75	5.85%	Unsecured	2023
2007	Pollution control bonds	$ 54	Variable	Unsecured	2034
2007	Pollution control bonds	$ 18	Variable	Unsecured	2026
2007	Pollution control bonds	$ 9	Variable	Unsecured	2037
2007	Due to Fidelia	$ 53	5.69%	Unsecured	2022
2007	Due to Fidelia	$ 75	5.86%	Unsecured	2037
2007	Due to Fidelia	$ 50	5.98%	Unsecured	2017
2007	Due to Fidelia	$ 100	5.96%	Unsecured	2028
2007	Due to Fidelia	$ 70	5.71%	Unsecured	2019
2007	Due to Fidelia	$ 100	5.45%	Unsecured	2014

In October 2008, KU issued Carroll County 2008 Series A tax exempt bonds in the amount of $78 million. The new bonds mature on February 1, 2032, and bear interest at a variable rate. The new bonds refinance four existing bonds (Carroll County 2005 Series A and C - $13 million each and the Carroll County 2006 Series A and C - $17 million each), and includes $18 million of new funding. The proceeds from the new funding will be held in escrow pending incurrence of qualifying expenditures.

In December 2008, KU converted the interest rate mode of the Carroll County 2006 Series B to a weekly mode from an auction mode. The bonds along with the Carroll County 2004 Series A, the Mercer County 2000 Series A, and the Carroll County 2008 Series A, were issued with the enhancement of a letter of credit. The bonds have been reclassified as current portion of long-term debt because investors can put the bonds back to the Company on a weekly basis.

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Long-term debt maturities for KU are shown in the following table:

(in millions)	
2009	$ -
2010	33
2011	-
2012	50
2013	175
Thereafter	1,274 (a)
Total	$ 1,532

(a) Includes long-term debt of $228 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2023 to 2034.

Note 8 - Notes Payable and Other Short-Term Obligations

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2008	$ 400	$ 16	$ 384	1.49%
December 31, 2007	$ 400	$ 23	$ 377	4.75%

E.ON U.S. maintains revolving credit facilities totaling $313 million and $150 million at December 31, 2008 and 2007, respectively, to ensure funding availability for the money pool. At December 31, 2008, one facility, totaling $150 million, is with E.ON North America, Inc., while the remaining line, totaling $163 million, is with Fidelia; both are affiliated companies. The facility as of December 31, 2007, was with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2008	$ 313	$ 299	$ 14	2.05%
December 31, 2007	$ 150	$ 62	$ 88	4.97%

During June 2007, KU entered into a short-term bilateral line of credit totaling $35 million. During the third quarter of 2007, KU extended the maturity date on this facility to June 2012. There was no outstanding balance under this facility at December 31, 2008.

The covenants under this revolving line of credit include the following:

- The debt/total capitalization ratio must be less than 70%
- E.ON must own at least 66.667% of voting stock of KU directly or indirectly
- The corporate credit rating of the Company must be at or above BBB- and Baa3 as determined by S&P and Moody's
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2006

KU was in compliance with these covenants at December 31, 2008.

In October 2008, KU closed on a new $78 million bilateral line of credit which has a 364 day maturity. This facility was terminated in December 2008 and replaced by four new letter of credit facilities to allow issuance of letters of credit totaling $198 million to support tax-exempt bonds totaling $195 million. The reimbursement agreements are identical and contain the following covenants:

- E.ON must own 75% of voting stock of KU directly or indirectly
- A limitation on disposing of assets aggregating more than 20% of total assets as of most recent quarter-end.

At December 31, 2008, KU had no remaining capacity for letters of credit under these facilities and was in compliance with these covenants.

Note 9 - Commitments and Contingencies

Operating Leases. KU leases office space, office equipment, plant equipment and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was $9 million and $6 million for 2008 and 2007, respectively. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2008, are shown in the following table:

(in millions)	
2009	$ 9
2010	5
2011	4
2012	4
2013	3
Thereafter	6
Total	$ 31

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages.

In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding, pursuant to a July 2005 summary judgment ruling interpreting the contract termination provisions in OMU's favor.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor, including determinations that KU's interpretation of facilities charge fund payments was accurate; that KU is the proportionate owner of NOx allowances allocated to the OMU plant by the government; that OMU's claims disputing various back-up power charges should be dismissed and that's KU's counterclaim based on operations and maintenance practices should proceed to trial. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against KU. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding KU an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU and (ii) denying KU's claim for damages based upon sub-par operations and availability of the OMU units. Those rulings, as well as all of the court's various prior rulings, including upholding early termination of the contract in spring 2010, remain subject to post-trial motions and appeal rights.

Sale and Leaseback Transaction. KU is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. KU and LG&E have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if KU had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, KU is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2008, the maximum aggregate amount of default fees or amounts was $9 million, of which KU would be responsible for 62% (approximately $6 million). KU has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay KU's full portion of any default fees or amounts.

Letter of Credit. KU has provided letters of credit totaling $198 million supporting bonds of $195 million and a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. KU has purchased power arrangements with OMU and OVEC. Under the OMU agreement, which is presently expected to end in May 2010, KU purchases all of the output of an approximately 400-Mw coal-fired generating station not required by OMU. The amount of purchased power available to KU during 2009-2010, which is expected to be approximately 5% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $228 million of OMU bonds outstanding at December 31, 2008. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 41% in 2008. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2009	$ 26
2010	17
2011	10
2012	10
2013	10
Thereafter	155
Total	$ 228

Coal and Gas Purchase Obligations. KU has contracts to purchase coal and natural gas transportation. Future obligations are shown in the following table:

(in millions)	
2009	$ 442
2010	387
2011	363
2012	217
2013	59
Thereafter	- (a)
Total	$ 1,468

(a) Obligations after 2013 are indexed to future market prices and will not be included above until prices are set using the contracted methodology.

Construction Program. KU had $123 million of commitments in connection with its construction program at December 31, 2008.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. The parties have commenced certain negotiations relating to potential construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. KU's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $25 million.

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

Mine Safety Compliance Costs. In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky and other states that supply coal to KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts KU has in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. KU has begun to receive information from the mines it contracts with regarding price adjustments related to these compliance costs and has hired a consultant to review all supplier claims for validity and reasonableness. At this time KU has not been notified of claims by all mines and is reviewing those claims it has received. An adjustment will be made to the value of the coal inventory once the amount is determinable, however, the amount cannot be estimated at this time. The Company expects to recover these costs through the FAC.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

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

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

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

CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2008 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $720 million during the 2009 through 2011 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring on-going efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is also monitoring on-going regulatory proceedings including the EPA's advanced notice of proposed rulemaking for regulation of GHGs under the existing authority of the Clean Air Act and proposed rules governing carbon sequestration. The new administration has announced its intention to exercise its existing authority under the Clean Air Act to achieve reductions in GHG emissions. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. In December 2008, the Company reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions. In February 2009, the proposed consent decree was lodged with the Court. In March 2009, the Court issued a consent decree approving the settlement.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation activities for elevated PCB levels at existing properties, liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 10 - Jointly Owned Electric Utility Plant

KU and LG&E have begun construction of TC2, a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively, in TC2. Of the remaining 25% of TC2, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010. In June 2008, LG&E transferred assets related to TC2 with a net book value of $10 million to KU.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)			
KU's 60.75% ownership:		LG&E's 14.25% ownership:	
Cost	$ 560	Cost	$ 136
Accumulated depreciation	-	Accumulated depreciation	2
Net book value	$ 560	Net book value	$ 134

	KU	LG&E
Construction work in progress (included in above)	$550	$132

KU and LG&E jointly own the following CTs and related equipment:

($ in millions)	KU				LG&E				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
KU 47%, LG&E 53% (a)	129	53	(12)	41	146	62	(15)	47	275	115	(27)	88
KU 62%, LG&E 38% (b)	190	82	(14)	68	118	51	(8)	43	308	133	(22)	111
KU 71%, LG&E 29% (c)	228	80	(18)	62	92	32	(6)	26	320	112	(24)	88
KU 63%, LG&E 37% (d)	404	137	(21)	116	236	79	(12)	67	640	216	(33)	183
KU 71%, LG&E 29% (e)	n/a	9	(2)	7	n/a	3	(1)	2	n/a	12	(3)	9

(a) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.
(b) Comprised of units 6 and 7 at the E.W. Brown facility.
(c) Comprised of units 5 and 6 at the Trimble County facility.
(d) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
(e) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	2008	2007
Electric operating revenues from LG&E	$ 80	$ 46
Purchased power from LG&E	109	93

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest income and expense for the years ended December 31, were as follows:

(in millions)	2008	2007
Interest on money pool loans	$ 2	$ 6
Interest on Fidelia loans	56	35

Other Intercompany Billings

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

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

Intercompany billings to and from KU for the years ended December 31, were as follows:

(in millions)	2008	2007
E.ON U.S. Services billings to KU	$ 227	$ 488
KU billings to LG&E	75	6
LG&E billings to KU	5	12
KU billings to E.ON U.S. Services	3	26

In June 2008, LG&E transferred assets related to TC2 with a net book value of $10 million to KU.

In March, June, September and December 2008, KU received capital contributions from its common shareholder, E.ON U.S., in the amounts of $25 million, $50 million, $50 million and $20 million, respectively.

In September and December 2007, KU received capital contributions from its shareholder, E.ON U.S. in the amount of $55 million and $20 million, respectively.

Note 12 – Subsequent Events

On January 13, 2009, KU, the AG, KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base electric rates will decrease by $9 million annually. An Order approving the settlement was received on February 5, 2009. The new rates were implemented effective February 6, 2009. However, in connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit, respectively, terminated, which will amount in increased revenues of approximately $16 million annually.

On January 27 and 28, 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm on February 11, 2009, causing approximately 44,000 customer outages. KU currently estimates costs incurred of $66 million of expenses and $28 million of capital expenditures related to the restoration following the two storms. The Company expects to seek recovery of these costs from the Kentucky Commission.

On February 19, 2009, the court issued post-trial orders in the litigation between KU and OMU, which orders awarded KU an aggregate $9 million related to disputed NOx allowance and back-up power pricing provisions, but denied a KU claim for damages relating to the availability of the OMU units. The orders are subject to certain appeal and other procedural rights prior to becoming final.

On March 17, 2009, the Court issued a consent decree approving the settlement in the Brown New Source Review litigation.

On March 19, 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

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Report of Independent Auditors

To the Shareholder of Kentucky Utilities Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, and cash flows present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in "Controls and Procedures" appearing on page 18 of the 2008 Kentucky Utilities Company financial statements and additional information. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2008). We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

PricewaterhouseCoopers LLP
Louisville, Kentucky
March 18, 2009

2007 - Annual Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

As of December 31, 2007 and 2006

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AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
GHG	Greenhouse Gas
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Services
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

Business

GENERAL

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in Kentucky.

OPERATIONS

The sources of operating revenues and volumes of sales for the years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	Revenues (millions)	Volumes (000Mwh)	Revenues (millions)	Volumes (000Mwh)
Residential	$ 430	6,847	$ 380	6,313
Industrial & Commercial	597	11,047	547	10,776
Municipals	90	2,058	85	1,978
Other Retail	98	1,691	89	1,608
Wholesale	58	1,582	109	2,473
Total	$1,273	23,225	$1,210	23,148

KU set a new record peak load of 4,344 Mw on August 9, 2007, when the temperature reached 98 degrees Fahrenheit in Lexington.

KU's power generating system includes coal-fired units operated at its four steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2007, KU owned and operated the following generating stations while maintaining a 12%-14% reserve margin:

	Summer Capability Rating (Mw)
Steam Stations:	
Tyrone – Woodford County, KY	71
Green River – Muhlenberg County, KY	163
E.W. Brown – Mercer County, KY	697
Ghent – Carroll County, KY	1,932
Total Steam Stations	2,863
Dix Dam Hydroelectric Station – Mercer County, KY	24
CT Generators (Peaking capability):	
E.W. Brown – Mercer County, KY*	757
Haefling – Fayette County, KY	36
Paddy's Run – Jefferson County, KY *	74
Trimble County – Trimble County, KY *	632
Total CT Generators	1,499
Total Capability Rating	4,386

* Some of these units are jointly owned with LG&E. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.

At December 31, 2007, KU's transmission system included 111 substations (39 of which are shared with the distribution system) with a total capacity of approximately 17,223 MVA and approximately 4,030 miles of lines. The distribution system included 481 substations (39 of which are shared with the transmission system) with a total capacity of approximately 6,653 MVA, 14,082 miles of overhead lines and 2,046 miles of underground conduit.

KU has a purchase power agreement with OMU, owns 20% of EEI's common stock and owns 2.5% of OVEC's common stock. Additional information regarding these relationships is provided in Notes 1 and 9 of Notes to Financial Statements.

KU was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. KU withdrew from the MISO effective September 1, 2006. KU now contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements. See Note 2 of Notes to Financial Statements.

RATES AND REGULATIONS

E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In February 2007, KU completed a series of financial transactions that allowed it to cease periodic reporting under the Securities Exchange Act of 1934. See Note 7 of Notes to Financial Statements.

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

For a further discussion of regulatory matters, see Notes 2 and 9 of Notes to Financial Statements.

COAL SUPPLY

Coal-fired generating units provided approximately 96% of KU's net Kwh generation for 2007. The remaining net generation for 2007 was provided by natural gas and oil fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. KU has no nuclear generating units and has no plans to build any in the foreseeable future.

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

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2008 and beyond and normally augments its coal supply agreements with spot market purchases. KU has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois and Ohio for the foreseeable future. With the installation of FGDs (SO_2 removal systems), KU expects its use of higher sulfur coal to increase. Coal is delivered to KU generating stations by a mix of transportation modes, including barge, truck and rail.

ENVIRONMENTAL MATTERS

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 9 of Notes to Financial Statements for additional information.

COMPETITION

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation. See Note 2 of Notes to Financial Statements for additional information.

EMPLOYEES AND LABOR RELATIONS

KU had 951 full-time regular employees at December 31, 2007, 152 of which were operating, maintenance and construction employees represented by the IBEW Local 2100 and the United Steelworkers of America ("USWA") Local 9447-01. Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. A wage re-opener was negotiated and agreed to in July 2007. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2005, with provisions for annual wage re-openers. Wage re-openers were negotiated in July 2006 and July 2007.

OFFICERS OF THE COMPANY

At December 31, 2007: **

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	52	Chairman of the Board, President and Chief Executive Officer	May 2001
John R. McCall	64	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994
S. Bradford Rives	49	Chief Financial Officer	September 2003
Martyn Gallus *	43	Senior Vice President – Energy Marketing	December 2000
Chris Hermann	60	Senior Vice President – Energy Delivery	February 2003
Paula H. Pottinger	50	Senior Vice President – Human Resources	January 2006
Paul W. Thompson	50	Senior Vice President – Energy Services	June 2000
Wendy C. Welsh	53	Senior Vice President – Information Technology	December 2000
Michael S. Beer	49	Vice President – Federal Regulation and Policy	September 2004
Lonnie E. Bellar	43	Vice President – State Regulation and Rates	August 2007
Kent W. Blake	41	Vice President -- Corporate Planning and Development	August 2007
D. Ralph Bowling	50	Vice President – Power Operations – WKE	August 2002
Laura G. Douglas	58	Vice President – Corporate Responsibility and Community Affairs	November 2007
R. W. Chip Keeling	51	Vice President – Communications	March 2002
John P. Malloy	46	Vice President – Energy Delivery – Retail Business	April 2007
Dorothy E. O'Brien	54	Vice President and Deputy General Counsel – Legal and Environmental Affairs	October 2007
George R. Siemens	58	Vice President – External Affairs	January 2001
P. Greg Thomas	51	Vice President – Energy Delivery – Distribution Operations	April 2007
John N. Voyles, Jr.	53	Vice President – Regulated Generation	June 2003
Daniel K. Arbough	46	Treasurer	December 2000
Valerie L. Scott	51	Controller	January 2005

Officers generally serve in the same capacities at KU and its affiliates, E.ON U.S. and LG&E.
* Mr. Gallus is serving in a position with an international E.ON affiliate, effective January 2008.
** David Sinclair, age 46, was promoted to Vice President – Energy Marketing in January 2008.

Risk Factors

KU is subject to a number of risks, including without limitation, those listed below and elsewhere in this document. Such risks could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by KU.

The rates that KU charges customers, as well as other aspects of the business, are subject to significant and complex governmental regulation. Federal and state entities regulate many aspects of utility operations, including financial and capital structure matters; siting and construction of facilities; rates, terms and conditions of service and operations; mandatory reliability and safety standards; accounting and cost allocation methodologies; tax matters; acquisition and disposal of utility assets and securities and other matters. Such regulations may subject KU to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge KU's rate request and ultimately reduce, alter or limit the rates KU seeks.

Changes in transmission and wholesale power market structures, as well as KU's exit from the MISO, could increase costs or reduce revenues. The resulting changes to transmission and wholesale power market structures and prices are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues.

Transmission and interstate market activities of KU, as well as other aspects of the business, are subject to significant FERC regulation. KU's business is subject to extensive regulation under the FERC covering matters including rates charged to transmission users and wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, can affect the earnings, operations or other activities of KU.

KU undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs. The completion of these facilities without delays or cost overruns is subject to risks in many areas, including approval and licensing; permitting; construction problems or delays; increases in commodity prices or labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments.

KU's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental 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. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions.

KU's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters. These weather or man-made factors can significantly affect KU's finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets or impacting future growth.

KU is subject to risks regarding potential developments concerning global climate change matters. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG remediation or sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation or other measures. KU's generation fleet is predominantly coal-fired and may be highly impacted by developments in this area.

KU's business is concentrated in the Midwest United States, specifically Kentucky. Local and regional economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers, can affect the demand for energy.

KU is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment. Operation of power plants, transmission and distribution facilities subjects KU to many risks, including the breakdown or failure of equipment; accidents; labor disputes; delivery/transportation problems; disruptions of fuel supply and performance below expected levels.

KU could be negatively affected by rising interest rates, downgrades to company or bond insurer credit ratings that could impact the Company's bond credit ratings or other negative developments in its ability to access capital markets. In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund its significant capital expenditures, debt interest or maturities and operating needs. Increases in interest rates could result in increased costs to KU.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business. General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to KU.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters. Risks include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, interest rates and actuarial matters, as well as, changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including base rate increase proceedings, merger surcredit proceedings, VDT proceedings, TC2 proceedings, Kentucky Commission, FERC and MISO proceedings and other rates or regulatory matters affecting KU, see Notes 2 and 9 of Notes to Financial Statements.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent or potential regulations; items regarding notices of violations and other emissions proceedings; global warming or climate change matters and other environmental items affecting KU, see Note 9 of Notes to Financial Statements.

Litigation

For a discussion of litigation matters, see Note 9 of Notes to Financial Statements.

Other

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

Selected Financial Data

(in millions)	Years Ended December 31				
	2007	2006	2005	2004	2003
Operating revenues	$1,273	$1,210	$1,207	$ 995	$ 892
Net operating income	$ 268	$ 235	$ 202	$ 228	$ 162
Net income	$ 167	$ 152	$ 112	$ 134	$ 91
Total assets	$3,796	$3,148	$2,756	$2,610	$2,505
Long-term obligations (including amounts due within one year)	$1,264	$ 843	$ 746	$ 726	$ 688

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during 2007 and 2006 and should be read in connection with the financial statements and notes thereto.

Forward Looking Statements

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

RESULTS OF OPERATIONS

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

Net Income

Net income in 2007 increased $15 million compared to 2006. The increase was primarily the result of increased retail sales volumes, increased ECR surcharge and decreased purchased power expense. Partially offsetting these items were decreased wholesale sales, higher interest expense, decreased MISO related revenue and decreased equity in earnings of EEI.

Revenues

Revenues in 2007 increased $63 million primarily due to:

- Increased fuel costs ($57 million) billed to customers through the FAC due to increased fuel prices and sales volumes delivered
- Increased sales volumes delivered ($30 million) resulting from a 2% increase in heating degree days and a 46% increase in cooling degree days
- Increased ECR surcharge ($25 million) due to increased recoverable capital spending
- Increased transmission service revenues ($4 million)

These increases were partially offset by:

- Lower wholesale sales ($37 million) due to decreased volumes and lower wholesale market pricing
- Lower MISO related revenue ($16 million) resulting from the exit from the MISO

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $37 million in 2007 primarily due to:
- Increased cost of fuel burned ($20 million) due to higher coal prices
- Increased generation ($17 million) due to higher demand

Power purchased expense decreased $14 million in 2007 primarily due to:
- Decreased volumes purchased ($19 million) due to increased internal generation
- Increased cost per Mwh of purchases ($5 million) due to higher fuel prices

Other operation and maintenance expenses increased $1 million in 2007 primarily due to increased maintenance expenses ($12 million), partially offset by decreased other operation expenses ($11 million).

Other maintenance expenses increased $12 million in 2007 primarily due to:
- Increased boiler maintenance expense ($7 million)
- Increased electric plant maintenance ($5 million)
- Increased vegetation management expense ($1 million)
- Decreased overhead conductor and devices maintenance ($1 million)

Other operation expenses decreased $11 million in 2007 primarily due to:
- Decreased MISO Day 1 and Day 2 expenses ($16 million) due to the exit from the MISO effective September 1, 2006, and refunds from the MISO for certain charges
- Decreased VDT workforce reduction expense ($3 million) due to completion of VDT amortization in March 2006
- Increased MISO Day 1 expense ($3 million) due to credit received from the MISO for financial transmission rights in 2006
- Increased outside services expense ($3 million)
- Increased wholesale expense ($1 million) due to a recorded credit in April 2006 for a FERC ordered refund from the MISO for charges assessed in excess of the rates in the MISO transmission tariff
- Increased research and development expenses ($1 million)

Equity earnings in EEI decreased $3 million in 2007 primarily due to decreased other electric earnings at EEI, resulting from decreased emission allowance sales in 2007 and increased purchased power expense.

Other income – net increased $5 million in 2007 primarily due to increased other income ($7 million) relating to increased allowance for funds used during construction, gain on disposal of property and increased interest income from bond proceeds on deposit with a trustee, partially offset by increased other expenses ($2 million) relating to penalties.

Interest expense increased $17 million in 2007, primarily due to increased interest expense to affiliated companies resulting from increased affiliate borrowings to fund increased capital additions.

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the Notes to Financial Statements. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment.

Critical accounting policies and estimates including unbilled revenue, allowance for doubtful accounts, regulatory mechanisms, pension and postretirement benefits and income taxes are detailed in Notes 1, 2, 3, 5, 6 and 9 of Notes to Financial Statements.

Recent Accounting Pronouncements. Recent accounting pronouncements affecting KU are detailed in Note 1 of Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

As of December 31, 2007, KU is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $33 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Credit facilities totaling $35 million are in place to fund such tenders, if necessary. KU has never needed to access these facilities. KU expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $302 million and $223 million in 2007 and 2006, respectively.

The 2007 increase of $79 million was primarily the result of increases in cash due to changes in:

- Earnings, net of non-cash items ($55 million)
- Material and supplies ($33 million) due to lower coal inventories on hand at December 31, 2007
- MISO exit fee ($20 million) due to the MISO exit being completed effective September 1, 2006
- Accrued income taxes ($15 million) due to income tax accrued during 2007 being greater than estimated payments
- ECR recovery ($11 million)
- Prepayments and other current assets ($9 million)
- Other current liabilities ($8 million)
- Other liabilities ($7 million)
- Other regulatory assets ($4 million)
- FAC recovery ($3 million)

These increases were partially offset by cash used for changes in:

- Pension and postretirement funding ($36 million)
- Accounts payable ($26 million)
- Property and other taxes payable ($14 million)
- Accounts receivable ($10 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities increased $382 million in 2007 compared to 2006 primarily due to increased capital expenditures of $395 million, offset by decreased restricted cash of $13 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued, which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows from financing activities were $422 million and $124 million in 2007 and 2006, respectively. See Note 7 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

KU expects its capital expenditures for the three-year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million and on-going construction related to generation and distribution assets. See Note 9 of Notes to Financial Statements for additional information.

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Contractual Obligations further below and Note 9 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of December 31, 2007, were:

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

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 7 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2007. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. Future interest obligations cannot be quantified because most of KU's debt is variable rate. See Statements of Capitalization.

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2008	2009	2010	2011	2012	Thereafter	Total
Short-term debt (a)	$ 23	$ -	$ -	$ -	$ -	$ -	$ 23
Long-term debt	-	-	33	-	50	1,181 (b)	1,264
Operating leases (c)	6	5	3	2	2	4	22
Unconditional power purchase obligations (d)	23	25	16	8	9	143	224
Coal and gas purchase obligations (e)	329	146	93	57	57	-	682
Retirement obligations (f)	23	24	23	23	23	124	240
Other obligations (g)	307	79	6	-	-	-	392
Total contractual cash obligations	$711	$279	$174	$90	$141	$1,452	$2,847

(a) Represents borrowings from affiliated company due within one year.
(b) Includes long-term debt of $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds mature in 2032. KU does not expect to pay these amounts in 2008.
(c) Represents future operating lease payments.
(d) Represents future minimum payments under OMU and OVEC power purchase agreements through 2010 and 2026, respectively.
(e) Represents contracts to purchase coal and natural gas.
(f) Represents currently projected cash flows for pension, postretirement and other post-employment benefit plans as calculated by the actuary.
(g) Represents construction commitments, including commitments for TC2 and the FGDs.

CONTROLS AND PROCEDURES

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring

Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO"). The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

KU is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Kentucky Utilities Company
Statements of Income
(Millions of $)

	Years Ended December 31	
	2007	2006
OPERATING REVENUES:		
Total operating revenues (Note 11)	$1,273	$1,210
OPERATING EXPENSES:		
Fuel for electric generation	461	424
Power purchased (Notes 9 and 11)	168	182
Other operation and maintenance expenses	255	254
Depreciation and amortization (Note 1)	121	115
Total operating expenses	1,005	975
Net operating income	268	235
Equity earnings in EEI (Note 1)	(26)	(29)
Other income – net	(6)	(1)
Interest expense (Notes 7 and 8)	15	15
Interest expense to affiliated companies (Note 11)	41	24
Income before income taxes	244	226
Federal and state income taxes (Note 6)	77	74
Net income	$ 167	$ 152

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31	
	2007	2006
Balance January 1	$ 870	$ 718
Add net income	167	152
Balance December 31	$1,037	$ 870

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Millions of $)

	Years Ended December 31	
	2007	2006
Net income	$167	$ 152
Additional minimum pension liability adjustment, net of tax expense of $0 and $13 for 2007 and 2006, respectively (Note 5)	-	19
Other comprehensive income, net of tax (Note 12)	-	19
Comprehensive income	$167	$ 171

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

Kentucky Utilities Company
Balance Sheets
(Millions of $)

	December 31 2007	December 31 2006
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ -	$ 6
Restricted cash (Note 1)	11	23
Accounts receivable – less reserve of $2 in 2007 and 2006 (Note 1)	172	123
Accounts receivable from affiliated companies (Note 11)	17	50
Materials and supplies (Note 1):		
Fuel (predominantly coal)	42	64
Other materials and supplies	34	34
Prepayments and other current assets	12	18
Total current assets	288	318
Other property and investments (Note 1)	29	25
Utility plant, at original cost (Note 1)	3,868	3,681
Less: reserve for depreciation	1,622	1,553
Total utility plant, net	2,246	2,128
Construction work in progress	1,071	487
Total utility plant and construction work in progress	3,317	2,615
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits (Notes 1 and 2)	28	64
Other	86	83
Cash surrender value of key man life insurance	37	35
Other assets	11	8
Total deferred debits and other assets	162	190
Total Assets	$3,796	$3,148

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

Kentucky Utilities Company
Balance Sheets (continued)
(Millions of $)

	December 31 2007	December 31 2006
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 7)	$ 33	$ 141
Notes payable to affiliated companies (Notes 8 and 11)	23	97
Accounts payable	160	83
Accounts payable to affiliated companies (Note 11)	48	87
Customer deposits	20	19
Other current liabilities	28	23
Total current liabilities	312	450
Long-term debt:		
Long-term bonds (Note 7)	300	219
Long-term notes to affiliated company (Note 7)	931	483
Total long-term debt	1,231	702
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	285	289
Accumulated provision for pensions and related benefits (Note 5)	83	126
Investment tax credit (Note 6)	55	13
Asset retirement obligations	30	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	310	297
Deferred income taxes	22	27
Other regulatory liabilities	10	6
Other liabilities	23	17
Total deferred credits and other liabilities	818	803
Commitments and contingencies (Note 9)		
COMMON EQUITY:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital (Note 11)	90	15
Retained earnings	1,016	854
Undistributed subsidiary earnings	21	16
Total retained earnings	1,037	870
Total common equity	1,435	1,193
Total Liabilities and Equity	$3,796	$3,148

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

Kentucky Utilities Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 167	$ 152
Items not requiring cash currently:		
Depreciation and amortization	121	115
Deferred income taxes-net	(6)	14
Investment tax credit-net	42	11
Provision for pension and postretirement plans	36	4
Other	(7)	2
Change in certain current assets and liabilities:		
Accounts receivable	(16)	(6)
Materials and supplies	22	(11)
Accounts payable	(26)	-
Accrued income taxes	2	(13)
Property and other taxes payable	(4)	10
Prepayments and other current assets	1	(8)
Other current liabilities	10	2
Pension and postretirement funding	(43)	(7)
MISO exit fee	-	(20)
Environmental cost recovery mechanism refundable	(1)	(12)
Other	4	(10)
Net cash provided by operating activities	302	223
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(742)	(347)
Change in restricted cash	12	(1)
Net cash used for investing activities	(730)	(348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company	448	100
Short-term borrowings from affiliated company	289	763
Repayment of short-term borrowings from affiliated company	(363)	(736)
Retirement of first mortgage bonds	(108)	(36)
Issuance of pollution control bonds	81	33
Additional paid-in capital	75	-
Net cash provided by financing activities	422	124
Change in cash and cash equivalents	(6)	(1)
Cash and cash equivalents at beginning of year	6	7
Cash and cash equivalents at end of year	$ -	$ 6
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$38	$82
Interest on borrowed money	16	15
Interest to affiliated companies on borrowed money	29	20

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

Kentucky Utilities Company
Statements of Capitalization
(Millions of $)

	December 31 2007	2006
LONG-TERM DEBT (Note 7):		
First mortgage bonds:		
P due May 15, 2007, 7.92% (Note 3)	-	54
Pollution control series:		
10, due November 1, 2024, variable %	-	54
Mercer Co. 2000 Series A, due May 1, 2023, variable %	13	13
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2005 Series A, due June 1, 2035, variable %	13	13
Carroll Co. 2005 Series B, due June 1, 2035, variable %	13	13
Carroll Co. 2006 Series A, due June 1, 2036, variable %	17	17
Carroll Co. 2006 Series C, due June 1, 2036, variable %	17	17
Carroll Co. 2007 Series A, due February 1, 2026, variable %	18	-
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	-
Trimble Co. 2007 Series A, due March 1, 2037, variable %	9	-
Notes payable to Fidelia:		
Due November 24, 2010, 4.24%, unsecured	33	33
Due January 16, 2012, 4.39%, unsecured	50	50
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, unsecured	75	75
Due July 8, 2015, 4.735%, unsecured	50	50
Due December 21, 2015, 5.36%, unsecured	75	75
Due October 25, 2016, 5.675% unsecured	50	50
Due June 23, 2036, 6.33%, unsecured	50	50
Due December 19, 2014, 5.45% unsecured	100	-
Due June 20, 2017, 5.98% unsecured	50	-
Due October 25, 2019, 5.71% unsecured	70	-
Due February 7, 2022, 5.69% unsecured	53	-
Due September 14, 2028, 5.96% unsecured	100	-
Due March 30, 2037, 5.86% unsecured	75	-
Total long-term debt outstanding	1,264	843
Less current portion of long-term debt	33	141
Long-term debt	1,231	702
COMMON EQUITY:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital (Note 11)	90	15
Retained earnings	1,016	854
Undistributed subsidiary earnings	21	16
Total retained earnings	1,037	870
Total common equity	1,435	1,193
Total capitalization	$2,666	$1,895

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

Note 1 - Summary of Significant Accounting Policies

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in Kentucky.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. KU is subject to SFAS No. 71, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission or the Virginia Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. KU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Materials and Supplies. Fuel and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by KU. At December 31, 2007 and 2006, the emission allowances inventory was less than $1 million and approximately $2 million, respectively.

Other Property and Investments. Other property and investments on the balance sheets consists of KU's investment in EEI, economic development loans provided to various communities in KU's service territory, KU's investment in OVEC, funds related to KU's long-term purchased power contract with OMU and non-utility plant.

Although KU holds investment interests in OVEC and EEI, it is not the primary beneficiary, therefore, neither are consolidated into KU's financial statements. KU and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual arrangements, KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

As of December 31, 2007 and 2006, KU's investment in OVEC totaled less than $1 million and is accounted for under the cost method of accounting. KU's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, KU anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding KU's ownership interests and power purchase rights.

KU owns 20% of the common stock of EEI, which owns and operates a 1,162-Mw generating station in southern Illinois. Prior to 2006, KU was entitled to take 20% of the available capacity of the station under a pricing formula comparable to the cost of other power generated by KU. This contract governing the purchases from EEI terminated on December 31, 2005. Since December 31, 2005, EEI has sold power under general market-based pricing and terms. KU has not contracted with EEI for power under the new arrangements, but maintains its 20% ownership in the common stock of EEI. Replacement power for the EEI capacity has been largely provided by KU generation.

KU's investment in EEI is accounted for under the equity method of accounting and, as of December 31, 2007 and 2006, totaled $23 million and $18 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Utility Plant. KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. KU has not recorded a significant allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2007 and 3.1% in 2006 of average depreciable plant. Of the amount provided for depreciation at December 31, 2007 and 2006, approximately 0.5% was related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized using the straight line method, which approximates the effective interest method, over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. . Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received an investment tax credit related to TC2, for more details see Note 6, Income Taxes. Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of KU's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. KU accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were $59 million and $42 million at December 31, 2007 and 2006, respectively.

Fuel Costs. The cost of fuel for generation is charged to expense as used.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting KU:

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets as required in 2008.

FIN 48

In July 2006, the FASB issued FIN 48 which clarifies the accounting for the uncertainty of income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position is measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows was not material.

Note 2 - Rates and Regulatory Matters

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

Rate Case

In December 2003, KU filed an application with the Kentucky Commission requesting an adjustment in KU's rates. The revenue increase requested was $58 million. In June 2004, the Kentucky Commission issued an Order approving an increase in KU's base rates of approximately $46 million (7%). The rate increase took effect on July 1, 2004.

Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in KU's favor consistent with the original rate increase order.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

(in millions)	2007	2006
ARO	$ 24	$ 22
MISO exit	20	20
FAC	17	16
Unamortized loss on bonds	10	10
ECR	11	10
Other	4	5
Subtotal	86	83
Pension and postretirement benefits	28	64
Total regulatory assets	$ 114	$ 147
Accumulated cost of removal of utility plant	$ 310	$ 297
Deferred income taxes - net	22	27
Other	10	6
Total regulatory liabilities	$ 342	$ 330

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include VDT costs, the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

ARO. A summary of KU's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of SFAS No. 143,* and SFAS No. 143, *Accounting for Asset Retirement Obligations,* follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accumulated Cost of Removal	Cost of Remova Depreciation
As of December 31, 2005	$ 6	$(27)	$20	$ (2)	$ 2	$ 1
ARO accretion	-	(1)	1	-	-	-
ARO depreciation	(1)	-	1	-	-	-
As of December 31, 2006	5	(28)	22	(2)	2	1
ARO accretion	-	(2)	2	-	-	-
As of December 31, 2007	$ 5	$(30)	$24	$ (2)	$ 2	$ 1

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2007 and 2006 for the ARO accretion and depreciation expense. KU AROs are primarily related to the final retirement of assets associated with generating units. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2007 or 2006. For the years ended December 31, 2007 and 2006, KU recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, KU has been operating under a FERC-approved open access-transmission tariff. KU now contracts with the Tennessee Valley Authority to act as its transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as Independent Transmission Organization, pursuant to FERC requirements.

KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, KU provided notice to the MISO of its disagreement with the calculation of the exit fee. KU and the MISO have resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. KU's retail rates contain an FAC, whereby increases and decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. Data discovery is ongoing and a public hearing is scheduled in March 2008.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. Data discovery has concluded and a public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged KU's recovery of approximately $5 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of KU's FAC charges and fuel procurement practices and indicated that KU was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In July 2006, the Kentucky Commission initiated a six-month review of the FAC for KU for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006, approving the charges and credits billed through the FAC during the review period.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six-month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both KU's and LG&E's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by KU and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by KU with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that KU fully complied with all audit recommendations and that no further reports are required.

KU also employs an FAC mechanism for Virginia customers that uses an average fuel cost factor based primarily on projected fuel costs. The fuel cost factor may be adjusted annually for over or under collections of fuel costs from the previous year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under-collected during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease of 0.599 cents/KWh in its fuel cost factor applicable during the billing period April 2008 through March 2009. The decrease was requested because KU has fully recovered its under-recovered fuel expenses from the prior periods.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight line method, which approximates the effective interest method, over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

ECR. Kentucky law permits KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. Data discovery concluded in December 2007, and all parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The case is submitted for decision and an order is anticipated in the second quarter of 2008.

In June 2006, KU filed an application for a CCN to construct an SCR at the Ghent station and to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2008 through 2010 is approximately $125 million, of which approximately $115 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006, approving all expenditures and investments as submitted. In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge for six-month periods ending July 2003, January 2004, January 2005, July 2005 and January 2006 and for the two-year period ending July 2004. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing KU to set up a regulatory asset of $54 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program which, along with the non-recurring charge of $7 million for FERC and Virginia jurisdictions, thereby decreased the charge to the regulatory asset from $64 million to $54 million. The Order reduced revenues by approximately $11 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to KU) of savings as stipulated by KU, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreement in the rate case, in September 2005, KU filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and KU reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as KU files for a change in base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, KU estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted KU's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by KU over a five-year period. In that same order, the Kentucky Commission required KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. KU submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. According to the Order, KU's merger surcredit would remain in place for another five-year term beginning July 1, 2003, the merger savings would continue to be shared 50% with ratepayers and 50% with shareholders and KU would file a plan for the merger surcredit six months before its expiration.

In December 2007, KU submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission has not issued a procedural schedule for this proceeding.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009. KU earns a return of these amortized costs, which are included in KU's jurisdictional operating expenses.

Pension and Postretirement Benefits. KU adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87, *Employers' Accounting for Pensions,* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions,* both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, KU has recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2007 and 2006, KU has segregated the cost of removal, previously embedded in accumulated depreciation, of $310 million and $297 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, KU has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

DSM. KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the existing annual budget of approximately $10 million. Data discovery concluded in November 2007, and the Community Action Council ("CAC") for Lexington-Fayette, Bourbon, Harrison and Nicholas counties and the Kentucky Association for Community Action ("KACA"), filed a motion for hearing. In January 2008, the CAC and KACA filed a motion with the Kentucky Commission to withdraw the request because the parties reached a settlement. The Kentucky Commission is allowing the current tariffs to remain in effect until a final order is issued.

Other Regulatory Matters

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. The Virginia Commission will continue to require each Virginia utility to make annual filings of either a base rate change or an Annual Informational Filing consisting of a set of standard financial schedules. The Virginia Commission Staff will issue a Staff Report regarding the individual utility's financial performance during the historic 12-month period. The Staff Report can lead to an adjustment in rates, but through December 2010, rates are subject to the capped rate period and essentially "frozen". In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation ("SERC"), effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly owned by KU and LG&E, was approved by the Kentucky Commission in November 2005, and initial CCN applications for three transmission lines were approved in September 2005 and May 2006. In August 2006, KU obtained dismissal of a judicial review of such CCN approvals by certain property owners. In December 2007, the Kentucky Court of Appeals reversed and remanded the lower Court's dismissal. Both parties have filed for reconsideration of elements of the appellate court's ruling. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. See Note 9, Commitments and Contingencies, for further discussion regarding the TC2 air permit.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

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

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and its subsidiaries, including KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and its subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and its subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Mandatory Reliability Standards. As a result of EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various regional reliability organizations ("RRO") by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. The SERC is currently assessing KU's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards. While KU believes itself to be in substantial compliance with the mandatory reliability standards generally, KU cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, KU and LG&E filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006. KU and LG&E will submit the next joint triennial filing in April 2008.

PUHCA 2005. E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months. KU will notify the Kentucky Commission 10 days prior to the actual implementation date and will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Green Energy Riders. In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Home Energy Assistance Program. In July 2007, KU filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved KU's new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission requesting a change in the depreciation rates as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Note 3 - Financial Instruments

The cost and estimated fair values of KU's non-trading financial instruments as of December 31 follow:

	2007		2006	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $33 million)	$333	$333	$360	$360
Long-term debt from affiliate	$931	$996	$483	$487

All of the above valuations reflect prices quoted by exchanges except for the loans from affiliate which are fair valued using accepted valuation models. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). KU has used over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments has been intended to mitigate risk, earnings and cash flow volatility and was not speculative in nature. Management had designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

KU had no outstanding interest rate swap agreements at December 31, 2007. KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006. The interest rate swap was terminated in February 2007, when the underlying debt was defeased. Under this swap agreement, KU paid variable rates based on the London Interbank Offer Rate averaging 7.44% and received fixed rates averaging 7.92% at December 31, 2006. The swap agreement in effect at December 31, 2006 had been designated as a fair value hedge. The fair value designation was assigned because the underlying fixed rate debt had a firm future commitment. For 2007 and 2006, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense.

Interest rate swaps hedge interest rate risk on the underlying debt under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market. Consequently, at December 31, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

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

The table below summarizes KU's energy trading and risk management activities:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Unrealized gains and losses recognized at contract inception during the period	-	-
Realized gains and losses recognized during the period	-	1
Changes in fair values attributable to changes in valuation techniques and assumptions	(1)	(2)
Other unrealized gains and losses and changes in fair values	-	1
Fair value of contracts at end of period, net asset	$ -	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

KU maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2007, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

KU hedges the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts for periods of less than one year. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income in other income – net. No material pre-tax gains and losses resulted in 2007. Pre-tax gains of $1 million resulted in 2006.

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

KU's customer receivables and revenues arise from deliveries of electricity to approximately 506,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and 5 customers in Tennessee. For the years ended December 31, 2007 and 2006, 100% of total revenue was derived from electric operations.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. A wage re-opener was negotiated in July 2007. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement effective August 2005, with authorized annual wage re-openers. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2007. Wage re-openers were negotiated in July 2006, and July 2007.

Note 5 - Pension and Other Postretirement Benefit Plans

KU has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. KU uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2007, and a statement of the funded status as of December 31 for KU's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	$ 303	$ 318	$ 88	$ 95
Service cost	6	6	2	2
Interest cost	17	17	5	5
Benefits paid, net of retiree contributions	(19)	(19)	(5)	(5)
Actuarial gain and other	(23)	(19)	(14)	(9)
Benefit obligation at end of year	$ 284	$ 303	$ 76	$ 88
Change in plan assets				
Fair value of plan assets at beginning of year	$ 253	$ 247	$ 12	$ 9
Actual return on plan assets	17	26	-	1
Employer contributions	13	-	6	7
Benefits paid, net of retiree contributions	(19)	(19)	(5)	(5)
Administrative expenses and other	-	(1)	-	-
Fair value of plan assets at end of year	$ 264	$ 253	$ 13	$ 12
Funded status at end of year	$ (20)	$ (50)	$ (63)	$ (76)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheets and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Regulatory assets	$ 37	$ 59	$ (9)	$ 5
Accrued benefit liability (non-current)	(20)	(50)	(63)	(76)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation	$ 284	$ 303	$ 76	$ 88
Accumulated benefit obligation	243	258	-	-
Fair value of plan assets	264	253	13	12

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Service cost	$ 6	$ 6	$ 2	$ 2
Interest cost	17	17	5	5
Expected return on plan assets	(21)	(20)	(1)	(1)
Amortization of prior service costs	1	1	-	1
Amortization of actuarial loss	2	4	-	-
Amortization of transitional obligation	-	-	-	1
Benefit cost at end of year	$ 5	$ 8	$ 6	$ 8

The assumptions used in the measurement of KU's pension benefit obligation are shown in the following table:

	2007	2006
Weighted-average assumptions as of December 31:		
Discount rate	6.66%	5.96%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

The assumptions used in the measurement of KU's net periodic benefit cost are shown in the following table:

	2007	2006
Discount rate	5.90%	5.50%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $30 million positive or negative impact to the 2007 accumulated benefit obligation and an approximate $40 million positive or negative impact to the 2007 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2007 pension expense.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 9% annual increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2007 total of service and interest costs components and an increase or decrease of $4 million in year-end 2007 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following list provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts:

(in millions)	Pension Plans	Other Postretirement Benefits	Medicare Subsidy Receipts
2008	$ 18	$ 6	$ (1)
2009	18	7	(1)
2010	17	7	(1)
2011	17	7	(1)
2012	17	7	(1)
2013-17	90	37	(3)

Plan Assets. The following table shows KU's weighted-average asset allocation by asset category at December 31:

Pension Plans	Target Range	2007	2006
Equity securities	45% - 75%	57%	61%
Debt securities	30% - 50%	43%	39%
Other	0% - 10%	0%	0%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. KU made a discretionary contribution to the pension plan of $13 million in January 2007. After this payment, KU's pension plan assets are in excess of the December 31, 2007 accumulated benefit obligation.

In addition, KU made contributions to other postretirement benefit plans of $6 million and $7 million in 2007 and 2006, respectively. In 2008, KU anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters.

Thrift Savings Plans. KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were $2 million for 2007 and 2006.

Note 6 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48 effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate. Additions and reductions of uncertain tax positions during 2007 were less than $1 million.

Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of statutes during 2008.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statements in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. Interest of less than $1 million was accrued for 2007 and 2006 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by KU upon adoption of FIN 48 or through December 31, 2007.

Components of income tax expense are shown in the table below:

(in millions)		2007	2006
Current	- federal	$ 28	$ 51
	- state	13	11
Deferred	- federal – net	(5)	-
	- state – net	(1)	1
Investment tax credit – deferred		43	12
Amortization of investment tax credit		(1)	(1)
Total income tax expense		$ 77	$ 74

Current federal income tax expense decreased and investment tax credit – deferred increased primarily due to the recording of investment tax credits of $43 million and $12 million at December 31, 2007 and 2006, respectively, as discussed below.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU's and LG&E's application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $43 million and $12 million in 2007 and 2006, respectively, decreasing current federal income taxes.

In September 2007, KU received Order 2007-00178 from the Kentucky Commission approving the accounting of the investment tax credit. In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. KU is not able to predict the ultimate outcome of this proceeding.

Components of net deferred tax liabilities included in the balance sheets are shown below:

(in millions)	2007	2006
Deferred tax liabilities:		
Depreciation and other plant-related items	$292	$291
Regulatory assets and other	40	37
Total deferred tax liabilities	332	328
Deferred tax assets:		
Income taxes due to customers	9	10
Pensions and related benefits	17	11
Liabilities and other	23	23
Total deferred tax assets	49	44
Net deferred income tax liability	$283	$284
Balance sheet classification		
Current assets	$ (2)	$ (5)
Non-current liabilities	285	289
Net deferred income tax liability	$283	$284

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

	2007	2006
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	3.4	3.9
Reduction of income tax accruals	(0.4)	(0.5)
Qualified production deduction	(1.2)	(0.4)
EEI dividend	(2.9)	(3.4)
Amortization of investment tax credit	(0.4)	(0.5)
Other differences	(1.9)	(1.4)
Effective income tax rate	31.6%	32.7%

The EEI dividend for 2007 and 2006 reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. Subsequent to an EEI management decision regarding changes in the distribution of EEI's previous earnings, KU elected to provide deferred taxes for all book and tax temporary differences in this investment.

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

H. R. 4520, known as the "American Jobs Creation Act of 2004", allows electric utilities to take a deduction for qualified production activities income starting in 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate changes, KU's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than rates when the deferred tax liability originated. In December 2006, KU received approval from the Kentucky Commission to establish and amortize a regulatory liability of $11 million for these net excess deferred income tax balances. KU will amortize these depreciation-related excess deferred income tax balances under the average rate assumption method which matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2006 due to their immaterial amount. There were no additional adjustments in 2007.

KU expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2007 and 2006, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2007:			
Noncurrent portion	Variable – 6.33%	2010-2037	$1,231
Current portion	Variable	2032	$ 33
Outstanding at December 31, 2006:			
Noncurrent portion	Variable – 6.33%	2010-2036	$ 702
Current portion	Variable – 7.92%	2007-2032	$ 141

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At December 31, 2007, and 2006, KU had $11 million and $23 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2007, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $300 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.96%, whereas the average rate in January and February of 2008 was 4.72%. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA and subsequently to A by S&P and from Aaa to A2 by Moody's, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. In March 2008, KU will issue notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. KU expects to purchase such bonds and hold some or all such bonds until a later date, including potential further conversion, remarketings or refinancings. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 13, Subsequent Events.

All of KU's first mortgage bonds were released and terminated in February 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2007 and 2006 was 3.72% and 3.56%, respectively.

At December 31, 2006, KU had an interest rate swap used to hedge KU's underlying debt obligations. The swap hedged specific debt issuances and, consistent with management's designation, was accorded hedge accounting treatment. The swap effectively converted the fixed rate obligation on KU's first mortgage bond Series P to variable-rate. At December 31, 2006, the remaining swap had a notional value of $53 million. The swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2007 and 2006 are summarized below:

($ in millions)		Principal		Secured/	
Year	Description	Amount	Rate	Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Secured	2024
2007	First mortgage bonds	$ 54	7.92%	Secured	2007
2006	First mortgage bonds	$ 36	5.99%	Secured	2006

Issuances of long-term debt for 2007 and 2006 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Unsecured	2034
2007	Pollution control bonds	$ 18	Variable	Unsecured	2026
2007	Pollution control bonds	$ 9	Variable	Unsecured	2037
2007	Due to Fidelia	$ 53	5.69%	Unsecured	2022
2007	Due to Fidelia	$ 75	5.86%	Unsecured	2037
2007	Due to Fidelia	$ 50	5.98%	Unsecured	2017
2007	Due to Fidelia	$100	5.96%	Unsecured	2028
2007	Due to Fidelia	$ 70	5.71%	Unsecured	2019
2007	Due to Fidelia	$100	5.45%	Unsecured	2014
2006	Pollution control bonds	$ 17	Variable	Unsecured	2036
2006	Pollution control bonds	$ 17	Variable	Unsecured	2036
2006	Due to Fidelia	$ 50	5.675%	Unsecured	2016
2006	Due to Fidelia	$ 50	6.33%	Unsecured	2036

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Long-term debt maturities for KU are shown in the following table:

(in millions)		
2008 - 2009	$ -	
2010	33	
2011	-	
2012	50	
Thereafter	1,181	(a)
Total	$1,264	

(a) Includes long-term debt of $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds mature in 2032. KU does not expect to pay these amounts in 2008.

Note 8 - Notes Payable and Other Short-Term Obligations

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$400	$23	$377	4.75%
December 31, 2006	$400	$97	$303	5.25%

As of December 31, 2007 and 2006, E.ON U.S. maintained a revolving credit facility totaling $150 million and $200 million, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$150	$ 62	$88	4.97%
December 31, 2006	$200	$102	$98	5.49%

During June 2007, KU entered into a short-term bilateral line of credit totaling $35 million. During the third quarter of 2007, KU extended the maturity date on this facility to June 2012. There was no outstanding balance under this facility at December 31, 2007.

The covenants under this revolving line of credit include:

- The debt/total capitalization ratio must be less than 70%
- E.ON must own at least 66.667% of voting stock of KU directly or indirectly
- The corporate credit rating of the Company must be at or above BBB- and Baa3 as determined by S&P and Moody's
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2006

Note 9 - Commitments and Contingencies

Operating Leases. KU leases office space, office equipment and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was $6 million for 2007 and 2006. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2007, are shown in the following table:

(in millions)	
2008	$ 6
2009	5
2010	3
2011	2
2012	2
Thereafter	4
Total	$22

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The parties are continuing various discovery proceedings, as well as settlement negotiations. A trial date has been set for October 2008. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The Company is currently unable to determine the final outcome of this matter.

Sale and Leaseback Transaction. KU is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. KU and LG&E have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if KU had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, KU is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2007, the maximum aggregate amount of default fees or amounts was $10 million, of which KU would be responsible for 62% (approximately $6 million). KU has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay KU's full portion of any default fees or amounts.

Letter of Credit. KU has provided a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. KU has purchased power arrangements with OMU and OVEC. Under the OMU agreement, which could last through January 1, 2020, KU purchases all of the output of an approximately 400-Mw coal-fired generating station not required by OMU. The amount of purchased power available to KU during 2008-2010, which is expected to be approximately 6% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $246 million of OMU bonds outstanding at December 31, 2007. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 39% in 2007. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2008	$ 23
2009	25
2010	16
2011	8
2012	9
Thereafter	143
Total	$ 224

Construction Program. KU had approximately $392 million of commitments in connection with its construction program at December 31, 2007.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division of Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. An agency decision on the final permit revisions may occur during 2008. The Company is currently unable to determine the final outcome of this matter.

Mine Safety Compliance Costs. In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky and other states that supply coal to KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts KU has in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. KU has begun to receive information from the mines it contracts with regarding price adjustments related to these compliance costs and has hired a consultant to review all supplier claims for validity and reasonableness. At this time KU has not been notified of claims by all mines and is reviewing those claims it has received. An adjustment will be made to the value of the coal inventory once the amount is determinable, however, the amount cannot be estimated at this time. The Company expects to recover these costs through the FAC.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in 2007 was approximately 1.33 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In

February 2008, a federal appellate court issued a decision in one of the proceedings vacating the current CAMR, an outcome that may have the effect of resulting in more stringent mercury reduction rules. However, the ruling could be subject to further appeal. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In 2006, the Kentucky air agency adopted a regulation aimed at regulating additional hazardous air pollutants from sources including power plants, but it was withdrawn in 2007. To the extent those rules are final, they are not expected to have a material impact on KU's power plant operations.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emissions allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling approximately $675 million during the 2008 through 2010 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, a July 2009 date for trial on the merits was scheduled. The parties continue periodic settlement discussions and a $2 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have commenced initial discussions on this matter. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

General Environmental Proceedings. KU has recently settled certain environmental matters. During 2005 and 2006, final judicial and administrative approvals were received regarding a consent decree relating to the October 1999 leak of approximately 38,000 gallons of diesel fuel (of which 34,000 gallons were recovered) from an underground pipeline at KU's E.W. Brown Station. Under the terms of the settlement, KU paid a civil penalty in 2006 and has agreed to construct a supplemental environmental project and maintain the project for ten years, each at a cost of less than $1 million. During 2006, final judicial and administrative approvals were received regarding a settlement associated with a former transformer scrap-yard which had been the subject of

April 2002 correspondence to KU and other potentially responsible parties. Under the terms of the settlement, the parties bore aggregate cleanup costs of approximately $2 million, of which KU's share was less than $1 million, which was paid in December 2006.

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of such matters is not expected to have a material impact on the operations of KU.

Note 10 - Jointly Owned Electric Utility Plant

KU and LG&E have begun construction of TC2, a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively, in TC2. Of the remaining 25% of TC2, Illinois Municipal Electric Agency ("IMEA") owns a 12.12% undivided interest and Indiana Municipal Power Agency ("IMPA") owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)	LG&E	KU
Construction work in progress	$74	$332

KU and LG&E jointly own the following CTs and related equipment:

($ in millions)	KU				LG&E				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
KU 47%, LG&E 53% (1)	129	51	(11)	40	146	58	(12)	46	275	109	(23)	86
KU 62%, LG&E 38% (2)	190	78	(14)	64	118	50	(10)	40	308	128	(24)	104
KU 71%, LG&E 29% (3)	228	80	(14)	66	92	32	(6)	26	320	112	(20)	92
KU 63%, LG&E 37% (4)	404	137	(17)	120	236	79	(8)	71	640	216	(25)	191
KU 71%, LG&E 29% (5)	n/a	9	(2)	7	n/a	3	-	3	n/a	12	(2)	10

1) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.
2) Comprised of units 6 and 7 at the E.W. Brown facility.
3) Comprised of units 5 and 6 at the Trimble County facility.
4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	2007	2006
Electric operating revenues from LG&E	$46	$77
Purchased power from LG&E	93	99

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest income and expense for the years ended December 31, were as follows:

(in millions)	2007	2006
Interest on money pool loans	$ 6	$ 3
Interest on Fidelia loans	35	21

Other Intercompany Billings

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

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

Intercompany billings to and from KU for the years ended December 31, were as follows:

(in millions)	2007	2006
E.ON U.S. Services billings to KU	$488	$353
KU billings to LG&E	6	56
LG&E billings to KU	12	53
KU billings to E.ON U.S. Services	26	23

In September and December 2007, KU received capital contributions from its shareholder, E.ON U.S. in the amount of $55 million and $20 million, respectively.

Note 12 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Pre-Tax	Income Taxes	Net
Balance at December 31, 2005	$ (32)	$ (32)	$ 13	$(19)
Minimum pension liability adjustment	32	32	(13)	(19)
Balance at December 31, 2006	$ -	$ -	$ -	$ -
Balance at December 31, 2007	$ -	$ -	$ -	$ -

Subsequent to the application of SFAS No. 158, adjustments to the minimum pension liability are recorded as regulatory assets and liabilities. As a result, there are no adjustments to the minimum pension liability recorded in accumulated other comprehensive income at December 31, 2007 or 2006.

Note 13 – Subsequent Events

On January 18, 2008, the Kentucky Commission issued an Order approving the charges and credits billed through the FAC during the review period of November 1, 2006 through April 30, 2007.

On January 31, 2008 and February 14, 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA by S&P and from Aaa to A2 by Moody's, respectively, due to downgrades of the bond insurer. On February 25, 2008, the bonds were subsequently downgraded from AA to A by S&P, due to a further downgrade of the insurer.

On February 1, 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU, for implementation within approximately eight months, for its large commercial and industrial customers.

On February 7, 2008 and February 25, 2008, the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P, due to downgrades of the bond insurer.

On February 26, 2008, KU commenced steps, including notice to relevant parties, to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds, from the auction rate mode to a fixed interest rate mode. Such conversions are scheduled to occur on April 4, 2008.

Beginning in late 2007, the interest rates on the insured bonds, wherein interest rates are reset either weekly or every 35 days via an auction process, began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.96%, whereas the average rate in January and February of 2008 was 4.72%.

On March 4, 2008, the FERC issued an Order approving the MISO exit fee recalculation agreement which provides KU with an immediate recovery of $1 million and an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest.

On March 17, 2008, KU commenced steps, including notice to relevant parties, to convert the Carroll County 2006 Series C bonds from the auction rate mode to a weekly interest rate mode. Such conversion is scheduled to occur on April 16, 2008.

Report of Independent Auditors

To the Shareholder of Kentucky Utilities Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, Kentucky Utilities Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
March 18, 2008

2009 - 3rd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

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

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Services	E.ON U.S. Services Inc.
EPA	U.S. Environmental Protection Agency
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GHG	Greenhouse Gas
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Ratings Services
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
OPERATING REVENUES				
Total operating revenues (Note 8)	$ 342	$ 372	$ 1,009	$ 1,040
OPERATING EXPENSES				
Fuel for electric generation	114	147	329	380
Power purchased (Note 8)	46	54	154	164
Other operation and maintenance expenses (Note 2)	23	67	230	208
Depreciation and amortization	34	36	99	99
Total operating expenses	217	304	812	851
Operating income	125	68	197	189
Other expense (income) – net (Note 3)	-	(12)	(7)	(30)
Interest expense (Note 6)	2	3	5	10
Interest expense to affiliated companies (Notes 6 and 8)	18	15	51	41
Income before income taxes	105	62	148	168
Federal and state income tax expense (Note 5)	39	19	49	51
Net income	$ 66	$ 43	$ 99	$ 117

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

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Balance at beginning of period	$ 1,228	$ 1,111	$ 1,195	$ 1,037
Net income	66	43	99	117
Balance at end of period	$ 1,294	$ 1,154	$ 1,294	$ 1,154

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	September 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 4	$ 2
Restricted cash	-	9
Accounts receivable, net:		
Customer – less reserves of $1 million and $3 million as of September 30, 2009 and December 31, 2008, respectively	138	152
Other – less reserves of less than $1 million as of September 30, 2009 and December 31, 2008	31	32
Materials and supplies:		
Fuel (predominantly coal)	91	73
Other materials and supplies	39	36
Deferred income taxes – net (Note 5)	3	2
Regulatory assets (Note 2)	36	32
Prepayments and other current assets	6	8
Total current assets	348	346
Other property and investments	13	23
Utility plant:		
At original cost	4,764	4,446
Less: reserve for depreciation	1,768	1,724
Total utility plant, net	2,996	2,722
Construction work in progress	1,182	1,176
Total utility plant and construction work in progress	4,178	3,898
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	127	127
Other	117	64
Cash surrender value of key man life insurance	37	39
Other assets	10	11
Total deferred debits and other assets	291	241
Total assets	$ 4,830	$ 4,508

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2009	December 31, 2008
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 228	$ 228
Notes payable to affiliated companies (Notes 6 and 8)	23	16
Accounts payable	131	155
Accounts payable to affiliated companies (Note 8)	31	38
Customer deposits	22	21
Regulatory liabilities (Note 2)	8	5
Other current liabilities	41	34
Total current liabilities	484	497
Long-term debt:		
Long-term bonds (Note 6)	123	123
Long-term debt to affiliated company (Notes 6 and 8)	1,281	1,181
Total long-term debt	1,404	1,304
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	333	279
Accumulated provision for pensions and related benefits (Note 4)	189	186
Investment tax credit (Note 5)	97	80
Asset retirement obligations	34	32
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	328	329
Deferred income taxes - net	10	16
Other	10	15
Other liabilities	24	26
Total deferred credits and other liabilities	1,025	963
Common equity:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital (Note 8)	315	241
Retained earnings	1,283	1,174
Undistributed subsidiary earnings	11	21
Total retained earnings	1,294	1,195
Total common equity	1,917	1,744
Total liabilities and equity	$ 4,830	$ 4,508

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 99	$ 117
Items not requiring cash currently:		
Depreciation and amortization	99	99
Deferred income taxes – net	48	(3)
Investment tax credit	17	22
Provision for pension and post retirement plans	19	7
Undistributed earnings of subsidiary company	10	(3)
Changes in current assets and liabilities:		
Accounts receivable	15	4
Materials and supplies	(21)	(19)
Accounts payable	(12)	15
Accrued income taxes	(1)	7
Prepayments and other current assets	2	1
Other current liabilities	5	4
Pension and postretirement funding (Note 4)	(17)	(2)
Storm restoration regulatory asset (Note 2)	(57)	-
Fuel adjustment clause, net	6	4
Environmental cost recovery	(10)	(8)
Other	(12)	(2)
Net cash provided by operating activities	190	243
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(378)	(554)
Assets transferred from affiliate	-	(10)
Restricted cash	9	10
Net cash used for investing activities	(369)	(554)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional paid-in capital (Note 8)	75	125
Long-term borrowings from affiliated company (Note 6)	100	175
Short-term borrowings from affiliated company – net (Note 6)	6	93
Reacquired bonds (Note 6)	-	(80)
Net cash provided by financing activities	181	313
CHANGE IN CASH AND CASH EQUIVALENTS	2	2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4	$ 2

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value

In August 2009, the FASB issued guidance related to fair value measurement disclosures, which is effective for the first reporting period beginning after issuance. The guidance provides amendments to clarify and reduce ambiguity in valuation techniques, adjustments and measurement criteria for liabilities measured at fair value. The adoption will have no impact on the Company's results of operations, financial position or liquidity.

ASC 105-10

The guidance in ASC 105-10, *Hierarchy of Generally Accepted Accounting Principles,* was issued in June 2009, and is effective for interim and annual periods ending after September 15, 2009. ASC 105-10 establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative nongovernmental U.S. generally accepted accounting principles. ASC 105-10 will have no effect on the Company's results of operations, financial position or liquidity; however, references to authoritative accounting literature have changed with the adoption.

ASC 855-10

The guidance in ASC 855-10, *Subsequent Events,* was issued in May 2009, and is effective for interim and annual periods ending after June 15, 2009. ASC 855-10 requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date they were available to be issued. The adoption of ASC 855-10 had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 9, Subsequent Events, for additional disclosures.

ASC 825-10

The guidance in ASC 825-10, *Interim Disclosures about Fair Value of Financial Instruments,* was issued in April 2009, and is effective for interim and annual periods ending after June 15, 2009. This guidance requires qualitative and quantitative disclosures about fair values of assets and liabilities on a quarterly basis. The adoption of ASC 825-10 had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 3, Financial Instruments, for additional disclosures.

ASC 715-20

The guidance in ASC 715-20, *Employers' Disclosures about Postretirement Benefit Plan Assets,* was issued in December 2008, and will be effective as of December 31, 2009. This guidance requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption of ASC 715-20 will have no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures will be required with the adoption.

ASC 815-10

The guidance in ASC 815-10, *Disclosures about Derivative Instruments and Hedging Activities,* was issued in March 2008, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in ASC 815-10. The adoption of ASC 815-10 had no impact on KU's statements of operations, financial position and cash flows; however, additional disclosures relating to derivatives were required with the adoption effective January 1, 2009. See Note 3, Financial Instruments, for additional disclosures.

ASC 810-10

The guidance in ASC 810-10, *Noncontrolling Interests in Consolidated Financial Statements,* was issued in December 2007, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company adopted ASC 810-10 effective January 1, 2009, and it had no impact on its statements of operations, financial position and cash flows.

ASC 820-10

The guidance in ASC 820-10, *Fair Value Measurements*, was issued in September 2006 and, except as described below, was effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10 does not expand the application of fair value accounting to new circumstances.

In February 2008, guidance on fair value measurements and disclosures delayed the effective date of ASC 820-10 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to ASC 820-10 have been evaluated and have no impact on the Company's financial statements.

The Company adopted ASC 820-10 effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and it had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Per ASC 820-10, fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities was adopted effective January 1, 2009, and it had no impact on the statements of operations, financial position and cash flows. At September 30, 2009, no additional disclosures were required per ASC 820-10 as KU did not have any nonfinancial assets or liabilities measured at fair value subsequent to initial measurement. The guidance in ASC 820-10, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly,* was issued in April 2009, and is effective for interim and annual periods ending after June 15, 2009. ASC 820-10 provides additional guidance on determining fair values when there is no active market or where the price inputs being used represent distressed sales. The adoption of ASC 820-10 had no impact on the Company's financial position, statements of operations and cash flows.

Note 2 - Rates and Regulatory Matters

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

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflects a proposed rate of return on rate base of 8.586% based upon a return on equity of 12%. The rate case application is subject to further proceedings before the Virginia Commission, including filings by interested parties, potential intervenors or the public. Certain testimony or other filings are anticipated in November and December 2009 and hearings are currently scheduled for November 2009 and January 2010. As permitted, pursuant to a Virginia Commission order, KU has elected to implement the proposed rates effective November 1, 2009 on an interim basis. The interim rates are subject to potential refund, with interest, of amounts, if any, collected in excess of the rates ultimately approved at the conclusion of the proceeding.

Kentucky Rate Case

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base rates will decrease $9 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from current, all-in stated unit charge rates to an unbundled formula rate. In May 2009, as a result of settlement negotiations, KU submitted an unopposed motion informing the FERC of the filing of a settlement agreement and agreed-upon seven-year service agreements with the municipal customers. The unopposed motion requested interim rate structures containing terms corresponding to the overall settlement principles, to be effective from May 1, 2009, until FERC approval of the settlement agreement. The settlement and service agreements provide for unbundled formula rates which are subject to annual adjustment and approval processes. In May 2009, the FERC issued an Order approving the interim settlement with respect to rates effective May 1, 2009 representing increases of approximately 3% from prior charges and a return on equity of 11%. Additionally, during May 2009, KU filed the first annual adjustment to the formula rates to incorporate 2008 data, which adjusted formula rates became effective on July 1, 2009.

Separately, the parties were not able to reach agreement on the issue of whether KU must allocate to the municipal customers a portion of renewable resources it procures on behalf of its retail ratepayers. In August 2009, the FERC accepted the issue for briefing by the parties and further proceedings are anticipated during 2009 and 2010 on this remaining portion of the rate proceeding.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in KU's Balance Sheets:

(in millions)	September 30, 2009	December 31, 2008
Current regulatory assets:		
ECR	$ 30	$ 20
FAC	2	8
Net MISO exit	2	-
Other	2	4
Total current regulatory assets	$ 36	$ 32
Non-current other regulatory assets:		
Storm restoration	$ 59	$ 2
ARO	29	28
Unamortized loss on bonds	13	13
Net MISO exit	9	19
Other	7	2
Subtotal non-current other regulatory assets	117	64
Pension and postretirement benefits	127	127
Total non-current regulatory assets	$ 244	$ 191
Current regulatory liabilities:		
DSM	$ 8	$ 5
Total current regulatory liabilities	$ 8	$ 5
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 328	$ 329
Deferred income taxes – net	10	16
Other	10	15
Total non-current regulatory liabilities	$ 348	$ 360

KU does not currently earn a rate of return on the ECR and FAC regulatory assets and the Virginia levelized fuel factor included in other regulatory assets, which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. KU will recover this asset through pension expense included in the calculation of base rates with the Kentucky Commission and will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. The Company will seek recovery of the Storm restoration regulatory asset and CMRG and KCCS contributions and FERC jurisdictional pension expense, included in other regulatory assets, in its next base rate cases. The Company recovers through the calculation of base rates, the amortization of the net MISO exit regulatory asset in Kentucky incurred through April 30, 2008.

The Company will also seek recovery of other jurisdictional portions of this asset in its current Virginia base rate case and, due to the formula nature of its FERC rate structure, the FERC jurisdictional portion of the regulatory asset will be included in the annual updates to the rate formula. The Company recovers through the calculation of base rates, the amortization of the remaining regulatory assets, including other regulatory assets comprised of deferred storm costs, EKPC FERC transmission settlement agreement and Kentucky rate case expenses. Other regulatory liabilities include DSM, FERC jurisdictional supplies inventory and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, per a Kentucky Commission Order, in the next Kentucky base rate case.

ECR. In August 2009, the Kentucky Commission initiated a two year review of KU's environmental surcharge for the period ending April 2009. An order is anticipated in the fourth quarter of 2009.

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

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

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

FAC. In August 2009, the Kentucky Commission initiated a routine examination of the FAC for the 6-month period November 1, 2008 through April 30, 2009. A formal hearing was held in October 2009. An Order is anticipated in the fourth quarter of 2009.

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

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

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At September 30, 2009, KU had a regulatory asset of less than $1 million. In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009, recommended a slight decrease in the factor filed by KU. The Company indicated the Virginia Staff proposal is acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

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

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, the Company established a reserve during the fourth quarter of 2008 of less than $1 million relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009, after a portion of the resettlement payments had been made, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG resettlement costs. Therefore, these costs were reversed and a receivable was established for amounts already paid of less than $1 million, which the MISO began refunding back to the Company in June 2009, and which were fully collected by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. An accrual had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accrual had been recorded for the time period November 5, 2007 to November 9, 2008 based on the prior Order. Accordingly, the accrual for the former time period was reversed and an accrual for the latter time period was recorded in June 2009, with a net effect of $1 million of expense, substantially all of which was paid by September 2009.

On August 7, 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable and it ordered the MISO to make a compliance filing within 90 days to allow time for further study of the issue. The conclusion of this issue may result in refunds to the Company, but the Company cannot predict the ultimate outcome of this matter, nor the financial impact, at this time.

In November 2009, KU and LG&E filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with Southwest Power Pool, Inc. in September 2010. The application seeks authority for KU and LG&E to function after such date as the administrator of their own open access transmission tariffs for most purposes. The Tennessee Valley Authority, which currently acts as reliability coordinator, would also assume certain additional duties. The application is subject to continuing FERC proceedings, including potential comments by the public, intervenors or FERC staff, prior to a ruling by the FERC.

Storm Restoration. In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009 winter storms. In September 2009, the Company established a regulatory asset of $57 million for actual costs incurred.

Hurricane Ike Wind Storm. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of $2 million for actual costs incurred.

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

Other Regulatory Matters

Wind Power Agreements. In August 2009, KU and LG&E filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind purchase power contracts and cost recovery mechanisms. The contracts were executed in August 2009, and are contingent upon KU and LG&E receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, KU and LG&E would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In September 2009, the Companies filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an order denying the Companies' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order currently allows the application's request for approval of the wind power agreements to continue to proceed independently from the application's request to recover the costs thereof via surcharges. In November 2009, KU and LG&E filed for rehearing of the Kentucky Commission's Order and requested that the issues of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding.

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

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

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges the Company from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, the Company has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

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

The CCN for the remaining line has been challenged by certain property owners in Hardin County, Kentucky. In August 2006, KU and LG&E obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. A motion for discretionary review of that reversal was filed by KU and LG&E with the Kentucky Supreme Court and was granted in April 2009. That proceeding, which seeks reinstatement of the Circuit Court dismissal of the CCN challenge, has been fully briefed and could be ruled upon by mid 2010.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

During 2008, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In April 2009, that appellate court denied KU's motion to lift the stay and issued an Order retaining the stay until a decision on the merits of the appeal. Efforts to seek reconsideration of that ruling, or to obtain intermediate review of the ruling by the Kentucky Supreme Court, were unsuccessful, and the stay remains in effect. The underlying appeal on KU's right to condemn remains pending before the Court of Appeals.

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

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU has obtained temporary easements and options to purchase temporary easements to allow construction of temporary transmission facilities bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the proposed temporary facilities. KU is presently seeking that CCN, with a decision by the Kentucky Commission expected in December 2009.

In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky. In that action, the landowners claim that the U.S. Army failed to comply with certain National Historic Preservation Act requirements relating to easements for the line through Fort Knox. KU and LG&E are cooperating with the U.S. Army in its defense in this case and in October 2009, the federal court granted the defendants' motion for summary judgment and dismissed the plaintiffs' claims.

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

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates effective February 2009. Approval by the Virginia Commission does not preclude the rates from being raised as an issue by any party in KU's current base rate case in Virginia.

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

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

Integrated Resource Plan. Pursuant to the Virginia Commission's December 2008 Order, KU filed its Integrated Resource Plan ("IRP") in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding.

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

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

KU conducts certain of its wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. The Company's sales under market-based rate authority totaled less than $1 million for the nine months ended September 30, 2009.

Note 3 - Financial Instruments

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

	September 30, 2009		December 31, 2008	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $228 million as of September 30, 2009 and December 31, 2008)	$ 351	$ 353	$ 351	$ 349
Long-term debt from affiliate	$ 1,281	$ 1,409	$ 1,181	$ 1,117

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market values are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU is subject to the risk of fluctuating interest rates in the normal course of business. The Company's policies allow the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At September 30, 2009, a 100 basis point change in the benchmark rate on KU's variable rate debt would impact pre-tax interest expense by $3 million annually. Although the Company's policies allow for the use of interest rate swaps, as of September 30, 2008 and 2009, KU had no interest rate swaps outstanding.

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

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

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

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

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

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

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

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

September 30, 2009

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Total Financial Assets	$ -	$ 1	$ 1
Financial Liabilities:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Total Financial Liabilities	$ -	$ 1	$ 1

December 31, 2008 Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Total Financial Assets	$ -	$ 1	$ 1

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. At September 30, 2009, there are no energy trading and risk management contracts with credit risk related contingent features that are in a liability position, and no collateral posted in the normal course of business. At September 30, 2009, a one notch downgrade of the Company's credit rating would have no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

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

	Asset Derivatives		Liability Derivatives	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Energy trading and risk management contracts (current)	Other current assets	$ 1	Other current liabilities	$ 1
Total		$ 1		$ 1

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

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

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

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Energy trading and risk management contracts (unrealized)	Electric revenues	$ (3)	$ (1)
Total		$ (3)	$ (1)

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Energy trading and risk management contracts (unrealized)	Electric revenues	$ 1	$ 1
Total		$ 1	$ 1

Net realized gains and losses were less than $1 million in the three and nine month periods ended September 30, 2009 and September 30, 2008.

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three and nine months ended September 30. The tables include the costs associated with both KU employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to KU are approximately 51% and 46% of E.ON U.S. Services costs for September 30, 2009 and 2008, respectively.

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

(in millions)	Other Postretirement Benefits Three Months Ended September 30, 2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Interest cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1
Benefit cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1

(in millions)	Pension Benefits Nine Months Ended September 30, 2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 4	$ 4	$ 8	$ 4	$ 3	$ 7
Interest cost	13	5	18	13	4	17
Expected return on plan assets	(10)	(4)	(14)	(15)	(4)	(19)
Amortization of prior service costs	1	1	2	1	1	2
Amortization of actuarial loss	6	2	8	-	-	-
Benefit cost	$ 14	$ 8	$ 22	$ 3	$ 4	$ 7

(in millions)	Other Postretirement Benefits Nine Months Ended September 30, 2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	3	-	3	3	-	3
Expected return on plan assets	-	-	-	(1)	-	(1)
Amortization of transitional obligation	1	-	1	1	-	1
Benefit cost	$ 5	$ 1	$ 6	$ 4	$ 1	$ 5

In 2009, KU has made contributions to other postretirement benefit plans totaling $4 million. In April 2009, KU made a contribution to a pension plan covering its employees of $13 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. KU's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. The Company also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2006 and later years are open, Revenue Agent Reports for 2006-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments to these tax years were previously recorded in the financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 filed federal income tax return. The tax year 2008 return is also included in the CAP program. Areas remaining under examination include bonus depreciation, capitalized interest, the Company's application for a change in repair deductions, and eligible expenditures for the TC2 investment credit. No net material adverse impact is expected from this examination.

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

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

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $6 million and $9 million during the three months ended September 30, 2009 and 2008, respectively, and $17 million and $22 million during the nine months ended September 30, 2009 and 2008, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

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

Note 6 - Short-Term and Long-Term Debt

KU's long-term debt includes $228 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. The average annualized interest rate for these bonds during the nine months ended September 30, 2009 was 0.65%.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of the Company. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At September 30, 2009, KU had no bond proceeds in trust included in restricted cash on the balance sheet. At December 31, 2008, the Company had $9 million of bond proceeds in trust included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At September 30, 2009, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the nine months ended September 30, 2009 and 2008, the average rate on the auction rate bonds was 0.51% and 4.72%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, S&P downgraded the credit rating of Ambac from "A" to "BBB". As a result, S&P downgraded the rating on the Carroll County 2002 Series C bond from "A" to "BBB+" in June 2009. The S&P rating of this bond is now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher.

During 2008, KU converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, the Company purchased some of the bonds from the remarketing agent. The bonds that were repurchased from the remarketing agent in 2008 were either defeased or remarketed during 2008.

As of September 30, 2009, KU had no remaining repurchased bonds. During 2008, the Company refinanced and remarketed $63 million and refinanced $17 million of pollution control bonds that had been previously repurchased by the Company.

In April 2009, the Company borrowed $50 million from Fidelia for a term of 8 years at a fixed rate of 5.28%. In July 2009, the Company borrowed an additional $50 million from Fidelia for a period of ten years at a fixed rate of 4.81%. The loans are unsecured.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2009	$ 400	$ 23	$ 377	0.25%
December 31, 2008	$ 400	$ 16	$ 384	1.49%

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

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

As of September 30, 2009, the Company maintained a bilateral line of credit, with an unaffiliated financial institution, totaling $35 million which matures in June 2012. At September 30, 2009, there was no balance outstanding under this facility. The Company also maintains letter of credit facilities that support $195 million of the $228 million of bonds that can be put back to the Company. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor's payment.

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

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Company's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 12 to the financial statements of KU contained therein). See the Company's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit which was removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involved interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. In July 2005, the court issued a summary judgment ruling upholding OMU's contractual right to terminate the OMU agreement in May 2010.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in the Company's favor. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against the Company. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding the Company an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU, plus pre- and post-judgment interest, and (ii) denying the Company's claim for damages based upon sub-par operations and availability of the OMU units. In April 2009, the court issued a ruling on various post-trial motions denying certain challenges to calculation elements of the $9 million award or of interest amounts associated therewith. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with the court's prior rulings and the Company has received the agreed settlement amounts.

Construction Program. KU had $61 million of commitments in connection with its construction program at September 30, 2009.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. The Company's share of additional costs from inception of the contract through the expected project completion in 2010 is estimated to be approximately $30 million.

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

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

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. KU is also reviewing aspects of its compliance plan relating to the

CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Companies' compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs. At present, KU is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

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

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 through 2008 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $700 million during the 2009 through 2011 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

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

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

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

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

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

GHG Litigation. A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, the United States Court of Appeals for the 5th Circuit in the case of Comer v. Murphy Oil reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. The Comer complaint alleges that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the parent of KU and LG&E

was included as a defendant in the complaint, but has not been subject to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU and LG&E are currently unable to predict further developments in the Comer case, including whether the plaintiffs will continue with a previously-dismissed motion seeking to amend their complaint to add the Companies as parties. KU and LG&E continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In December 2008, the Company reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions. In February 2009, the proposed consent decree was lodged with the Court. In March 2009, the Court entered the consent decree which is now legally in effect.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

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

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a completed settlement with state regulators regarding particulate limits in the air permit for KU's Tyrone generating station, remediation activities for, or other risks relating to, elevated polychlorinated biphenyl levels at existing properties, and liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

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

Electric Purchases

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

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

Interest Charges

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

KU's intercompany interest expense was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Interest on money pool loans	$ -	$ 1	$ -	$ 1
Interest on Fidelia loans	18	14	51	40

Other Intercompany Billings

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

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

Intercompany billings to and from KU were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
E.ON U.S. Services billings to KU	$ 43	$ 62	$ 121	$ 173
KU billings to LG&E	16	21	63	58
LG&E billings to KU	-	-	-	5
KU billings to E.ON U.S. Services	3	-	5	2

In March and June 2009, the Company received capital contributions of $50 million and $25 million, respectively, from its common shareholder, E.ON U.S.

Note 9 – Subsequent Events

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

Effective November 1, 2009, in connection with its application for a base rate increase in Virginia and the Virginia Commission suspension of those rates, KU implemented the proposed rate schedules, subject to refund with interest, based upon the final outcome of the proceeding.

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

Management's Discussion and Analysis

General

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

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

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 512,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

Regulatory Matters

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, the Company's base rates will decrease $9 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU incurred $57 million of incremental operation and maintenance expenses and $32 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009 winter storms. In September 2009, the Company established a regulatory asset of $57 million for actual costs incurred.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of $2 million for actual costs incurred.

Environmental Matters; Climate-Change Developments

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

Results of Operations

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

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

Net Income

Net income for the three months ended September 30, 2009, increased $23 million compared to the same period in 2008. The increase was primarily the result of decreased operating expense ($87 million), partially offset by decreased electric revenues ($30 million), increased income tax expense ($20 million), decreased other income - net ($12 million) and increased interest expense, including interest expense to affiliated companies ($2 million).

Revenues

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

- Decreased wholesale sales ($19 million) due to lower sales volumes to LG&E ($14 million) and third-parties ($5 million) as a result of lower economic capacity caused by low spot market pricing in the third quarter of 2009. Via a mutual agreement, KU sells its higher cost electricity to LG&E for LG&E's wholesale sales and KU purchases LG&E's lower cost electricity to serve KU's native load.
- Decreased fuel costs billed to customers through the FAC ($15 million) due to lower fuel prices
- Decreased retail sales volumes delivered ($11 million) due to weakened economic conditions and mild weather
- Decreased mark-to-market income ($3 million) due to a change in power purchase swaps resulting from market price changes and trading activity
- Decreased base rates ($3 million) due to the application of the Kentucky base rate case settlement in February 2009
- Increased ECR surcharge ($10 million) due to increased recoverable capital spending
- Increased DSM revenue ($5 million) due to increased recoverable program spending
- Increased miscellaneous revenues ($3 million) due to the initial assessment of late payment fees in the second quarter of 2009
- Decreased merger surcredit ($2 million) due to the surcredit termination in February 2009

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation decreased $33 million in the three months ended September 30, 2009, primarily due to:

- Decreased volumes of fuel usage ($32 million) due to decreased native load and wholesale sales
- Decreased commodity and transportation costs for coal and natural gas ($1 million)

Power purchased expense decreased $8 million in the three months ended September 30, 2009, primarily due to:

- Decreased prices for purchases used to serve retail customers ($7 million) as a result of low spot market pricing during the majority of the third quarter of 2009
- Decreased third-party purchased volumes for native load ($2 million) due to lower native load demand
- Increased demand payments for third-party purchases ($1 million) on long-term contracts

Other operation and maintenance expense decreased $44 million in the three months ended September 30, 2009, due to decreased maintenance expense ($54 million) and offset by increased other operation expense ($10 million).

Maintenance expense decreased $54 million in the three months ended September 30, 2009, primarily due to:

- Decreased ($53 million) due to reclassification of 2009 wind and ice storm restoration expenses to a regulatory asset
- Decreased ($1 million) due to 2008 wind storm expenses which were expensed in the third quarter of 2008 and reclassified to a regulatory asset in the fourth quarter of 2008

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

- Increased administrative and general expense ($9 million) due to timing of DSM expenditures and increased labor costs
- Increased pension expense ($4 million) due to lower 2008 pension asset investment performance
- Increased steam expense ($1 million) due to utilization of SCRs year-round
- Decreased distribution expense ($4 million) due to the reclassification of 2009 wind and ice storm restoration expenses to a regulatory asset

Other income – net decreased $12 million in the three months ended September 30, 2009, primarily due to:

- Decreased ($11 million) due to lower subsidiary equity earnings from Electric Energy, Inc. resulting from decreased market prices
- Decreased ($1 million) due to discontinuance of allowance for funds used during construction on ECR projects as a result of the FERC rate case

Interest expense, including interest expense to affiliated companies, increased $2 million in the three months ended September 30, 2009, primarily due to interest on increased borrowings with affiliated companies ($3 million) offset by decreased interest on bonds ($1 million) due to lower interest rates.

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

	Three Months Ended September 30, 2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	3.5	2.6
Dividends received deduction related to Electric Energy Inc. investment	-	(3.4)
Qualified production activities deduction	-	(1.2)
Excess deferred taxes on depreciation	(0.7)	(0.5)
Other differences	(0.7)	(1.9)
Effective income tax rate	37.1 %	30.6 %

The effective income tax rate increased for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to the loss of a dividends received deduction associated with the Electric Energy Inc. dividends. No dividends were received from Electric Energy Inc., in the third quarter of 2009.

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

Net Income

Net income for the nine months ended September 30, 2009, decreased $18 million compared to the same period in 2008. The decrease was primarily the result of decreased electric revenue ($31 million), decreased other income – net ($23 million) and increased interest expense, including interest expense to affiliated companies ($5 million), partially offset by decreased operating expense ($39 million) and decreased income taxes ($2 million).

Revenues

Revenues decreased $31 million in the nine months ended September 30, 2009, primarily due to:

- Decreased wholesale sales ($39 million) due to lower sales volumes to LG&E ($30 million) and third-parties ($10 million) as a result of scheduled coal-fired generation unit outages during January through April 2009, and lower economic capacity caused by low spot market pricing during the majority of 2009. Via a mutual agreement, KU sells its higher cost electricity to LG&E for LG&E's wholesale sales and KU purchases LG&E's lower cost electricity to serve KU's native load.
- Decreased retail sales volumes delivered ($39 million) due to milder weather, weakened economic conditions and significant 2009 storm outages
- Decreased base rates ($5 million) due to the application of the Kentucky base rate settlement in February 2009, partially offset by the increase in Virginia levelized fuel factor
- Decreased fuel costs billed to customers through the FAC ($2 million) due to a refund of purchased power costs from OMU ($6 million), partially offset by increased fuel prices ($4 million)

- Decreased mark-to-market income ($2 million) due to a change in power purchase swaps resulting from market price changes and trading activity
- Increased ECR surcharge ($36 million) due to increased recoverable capital spending
- Decreased merger surcredit ($10 million) due to a lower rate approved by the Kentucky Commission in June 2008 and the surcredit termination in February 2009
- Increased miscellaneous revenue ($5 million) resulting from the initial assessment of late payment fees in the second quarter of 2009
- Increased DSM revenue ($3 million) due to increased recoverable program spending
- Decreased VDT surcredit ($2 million) due to termination in August 2008

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation decreased $51 million in the nine months ended September 30, 2009, primarily due to:

- Decreased volumes of fuel usage ($72 million) due to decreased native load and wholesale sales
- Increased commodity and transportation costs for coal and natural gas ($21 million)

Power purchased expense decreased $10 million in the nine months ended September 30, 2009, primarily due to:

- Decreased prices for purchases used to serve retail customers ($17 million) due to increased availability of power from OMU and lower spot market pricing in 2009
- Decreased power purchased expense ($7 million) due to a refund of power purchased costs related to the OMU settlement
- Decreased third-party purchased volumes for off-system sales ($1 million) as a result of low spot market pricing
- Increased purchased volumes from LG&E ($10 million), partially offset by lower prices ($4 million). Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load. LG&E was able to provide higher volumes due to LG&E's reduced native load requirements as a result of milder weather and the weakened economy.
- Increased third-party purchased volumes for native load ($5 million) as a result of scheduled coal-fired generation unit outages
- Increased demand payments for third-party purchases ($3 million) on long term contracts

Other operation and maintenance expense increased $22 million in the nine months ended September 30, 2009, due to increased other operation expense ($20 million) and increased maintenance expense ($2 million).

Other operation expense increased $20 million in the nine months ended September 30, 2009, primarily due to:

- Increased pension expense ($14 million) due to lower 2008 pension asset investment performance
- Increased steam expense ($4 million) due to utilization of SCRs year-round
- Increased administrative and general expense ($3 million) due to consulting fees for software training and increased labor costs
- Increased property tax ($1 million) due to higher tax assessment resulting from construction expenditures
- Decreased generation expense ($2 million) due to scheduled unit outages and routine maintenance

Maintenance expense increased $2 million in the nine months ended September 30, 2009, primarily due to:

- Increased steam expense ($4 million) due to increased scope of work for scheduled outages
- Increased transmission expense ($1 million) primarily due to the 2009 winter storm restoration
- Increased administrative and general expense ($1 million) due to increased labor and system maintenance contracts resulting from completion of a significant in-house customer information system project
- Decreased distribution expense ($4 million) as a result of 2008 winter storms ($3 million) and 2008 wind storm expenses which were expensed in the third quarter of 2008 and reclassified to a regulatory asset in the fourth quarter of 2008 ($1 million)

Other income – net decreased $23 million in the nine months ended September 30, 2009, primarily due to:

- Decreased ($25 million) due to lower subsidiary equity earnings from Electric Energy, Inc. resulting from decreased market prices.
- Decreased ($1 million) due to discontinuance of allowance for funds used during construction on ECR projects as a result of the FERC rate case
- Increased ($2 million) due to settlement of Brown New Source Review litigation and a self-reported SERC violation

Interest expense, including interest expense to affiliated companies, increased $5 million in the nine months ended September 30, 2009, primarily due to increased borrowings with affiliated companies ($10 million) offset by decreased interest on bonds ($5 million) due to lower interest rates.

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

	Nine Months Ended September 30,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	2.7	2.4
Dividends received deduction related to Electric Energy Inc. investment	(2.1)	(3.8)
Qualified production activities deduction	(0.3)	(1.3)
Amortization of investment tax credits	(0.1)	(0.1)
Nondeductible life insurance	(0.3)	(0.3)
Excess deferred taxes on depreciation	(1.0)	(0.8)
Other differences	(0.8)	(0.7)
Effective income tax rate	33.1 %	30.4 %

The effective income tax rate increased for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due to a decrease in the dividends received deduction, related to a decrease in dividends received from Electric Energy Inc.

Liquidity and Capital Resources

KU uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent mainly to fund construction of plant and equipment. As of September 30, 2009, KU had a working capital deficiency of $136 million, primarily due to the terms of certain tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. See Note 6 of Notes to Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

The $53 million decrease in net cash provided by operating activities for the nine months ended September 30, 2009 compared to September 30, 2008, was primarily the result of changes in:

- Storm restoration costs ($57 million) established as a regulatory asset for the 2009 winter storm restoration expenses
- Accounts payable ($27 million) primarily due to timing of payments and lower accruals
- Pension and postretirement funding ($15 million) due to valuation related to market conditions
- Other ($10 million)
- Accrued income taxes ($8 million)
- Materials and supplies ($2 million)
- Environmental cost recovery receivable ($2 million)

These decreases were partially offset by changes in:

- Earnings, net of non-cash items ($53 million)
- Accounts receivable ($11 million) primarily due to timing on collection of accounts
- Fuel adjustment clause receivable, net ($2 million)
- Prepayments and other current assets ($1 million)
- Other current liabilities ($1 million)

Investing Activities

Net cash used for investing activities decreased $185 million in the nine months ended September 30, 2009, compared to 2008. The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $378 million and $554 million in the nine months ended September 30, 2009 and 2008, respectively, a net decrease of $176 million. The remaining decrease in net cash used for investing activities is due to a decrease in assets transferred from LG&E for TC2 of $10 million, partially offset by decreased funds received from restricted cash of $1 million representing escrow proceeds from the pollution control bonds.

Financing Activities

Net cash inflows from financing activities were $181 million and $313 million in the nine months ended September 30, 2009 and 2008, respectively, resulting in a decrease in net cash provided by financing activities of $132 million. The decrease in financing inflows is due to decreased short-term borrowings net of repayments from an affiliated company of $87 million, decreased long-term borrowings from affiliates of $75 million and decreased equity contributions from E.ON U.S. of $50 million, partially offset by decreased reacquisition of bonds of $80 million.

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

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three year period ending December 31, 2011, to total approximately $1.3 billion, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $360 million, on-going construction related to distribution assets totaling approximately $250 million, on-going construction related to generation assets totaling approximately $220 million, ash pond and landfill projects totaling approximately $185 million, construction of TC2 totaling approximately $165 million (including $30 million for environmental controls), the Brown SCR totaling approximately $110 million, and information technology projects of approximately $35 million.

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

KU has a variety of funding alternatives available to meet its capital requirements. The Company participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds of up to $400 million available to the Company at market-based rates. Fidelia also provides long-term intercompany funding to KU. See Notes 6 and 9 of Notes to Financial Statements.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million. As of September 30, 2009, KU has borrowed $23 million of this authorized amount. See Note 6 of Notes to Financial Statements.

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

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

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

Controls and Procedures

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

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

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

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

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of the Company's Annual Report for the year ended December 31, 2008: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2, 7 and 9 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in the Company's Annual Report for the year ended December 31, 2008 have not materially changed.

Other

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

2009 - 2nd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

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

INDEX OF ABBREVIATIONS

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

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Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
OPERATING REVENUES				
Total operating revenues (Note 8)	$ 305	$ 316	$ 666	$ 668
OPERATING EXPENSES				
Fuel for electric generation	99	110	215	233
Power purchased (Note 8)	43	54	107	110
Other operation and maintenance expenses (Note 2)	76	75	208	141
Depreciation and amortization	33	31	66	63
Total operating expenses	251	270	596	547
Operating income	54	46	70	121
Other income – net (Note 3)	(2)	(9)	(9)	(18)
Interest expense (Note 6)	2	3	3	7
Interest expense to affiliated companies (Notes 6 and 8)	17	13	33	26
Income before income taxes	37	39	43	106
Federal and state income tax expense (Note 5)	11	11	10	32
Net income	$ 26	$ 28	$ 33	$ 74

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

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Balance at beginning of period	$ 1,202	$ 1,083	$ 1,195	$ 1,037
Net income	26	28	33	74
Balance at end of period	$ 1,228	$ 1,111	$ 1,228	$ 1,111

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 3	$ 2
Restricted cash	-	9
Accounts receivable, net:		
Customer -- less reserves of $2 million and $3 million as of June 30, 2009 and December 31, 2008, respectively	140	152
Other – less reserves of less than $1 million as of June 30, 2009 and December 31, 2008	26	32
Materials and supplies:		
Fuel (predominantly coal)	98	73
Other materials and supplies	39	36
Regulatory assets (Note 2)	41	32
Prepayments and other current assets	6	10
Total current assets	353	346
Other property and investments	13	23
Utility plant:		
At original cost	4,725	4,446
Less: reserve for depreciation	1,752	1,724
Total utility plant, net	2,973	2,722
Construction work in progress	1,128	1,176
Total utility plant and construction work in progress	4,101	3,898
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	127	127
Other	59	64
Cash surrender value of key man life insurance	37	39
Other assets	10	11
Total deferred debits and other assets	233	241
Total assets	$ 4,700	$ 4,508

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2009	December 31, 2008
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 228	$ 228
Notes payable to affiliated companies (Notes 6 and 8)	61	16
Accounts payable	149	161
Accounts payable to affiliated companies (Note 8)	31	38
Deferred income taxes – net (Note 5)	30	30
Customer deposits	22	21
Regulatory liabilities (Note 2)	10	5
Other current liabilities	27	27
Total current liabilities	558	526
Long-term debt:		
Long-term bonds (Note 6)	123	123
Long-term debt to affiliated company (Notes 6 and 8)	1,231	1,181
Total long-term debt	1,354	1,304
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	256	250
Accumulated provision for pensions and related benefits (Note 4)	184	186
Investment tax credit (Note 5)	91	80
Asset retirement obligations	33	32
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	326	329
Deferred income taxes - net	13	16
Other	9	15
Other liabilities	24	26
Total deferred credits and other liabilities	936	934
Common equity:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital (Note 8)	316	241
Retained earnings	1,216	1,174
Undistributed subsidiary earnings	12	21
Total retained earnings	1,228	1,195
Total common equity	1,852	1,744
Total liabilities and equity	$ 4,700	$ 4,508

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 33	$ 74
Items not requiring cash currently:		
Depreciation and amortization	66	63
Deferred income taxes – net	6	(7)
Investment tax credit	11	13
Provision for pension and post retirement plans	13	5
Undistributed earnings of subsidiary company	9	-
Changes in current assets and liabilities:		
Accounts receivable	18	27
Materials and supplies	(28)	(15)
Accounts payable	(4)	22
Accrued income taxes	-	(1)
Prepayments and other current assets	4	3
Other current liabilities	-	(2)
Pension and postretirement funding (Note 4)	(16)	(1)
Fuel adjustment clause, net	3	5
Environmental cost recovery	(11)	(7)
Other	(8)	3
Net cash provided by operating activities	96	182
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(271)	(355)
Assets transferred from affiliate	-	(10)
Risk management contracts	(2)	-
Restricted cash	9	11
Net cash used for investing activities	(264)	(354)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional paid-in capital (Note 8)	75	75
Long-term borrowings from affiliated company (Note 6)	50	75
Short-term borrowings from affiliated company – net (Note 6)	44	52
Reacquired bonds	-	(30)
Net cash provided by financing activities	169	172
CHANGE IN CASH AND CASH EQUIVALENTS	1	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3	$ -

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 168

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

SFAS No. 165

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

FSP SFAS 107-1 and APB 28-1

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

FSP SFAS 132(R)-1

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

SFAS No. 161

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

SFAS No. 160

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

SFAS No. 157

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

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

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

Note 2 - Rates and Regulatory Matters

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

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflects a proposed rate of return on rate base of 8.586% based upon a return on equity of 12%. The Virginia Commission has suspended the increased rates through October 31, 2009. The rate case application is subject to further proceedings before the Virginia Commission, including filings by interested parties, potential intervenors or the public. Certain testimony or other filings are anticipated in November and December 2009 and hearings are currently scheduled for November 2009 and January 2010. Following the suspension period, KU has the option, at its discretion, of implementing the proposed rates on an interim basis, subject to potential refund with interest, pending the outcome of the overall proceeding,

Kentucky Rate Case

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base rates will decrease $9 million annually. An Order approving the settlement was received in

February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from current, all-in stated unit charge rates to an unbundled formula rate. In May 2009, as a result of settlement negotiations, KU submitted an unopposed motion informing the FERC of the filing of a settlement agreement and agreed-upon seven-year service agreements with the municipal customers. The unopposed motion requested interim rate structures containing terms corresponding to the overall settlement principles, to be effective from May 1, 2009, until FERC approval of the settlement agreement. The settlement and service agreements provide for unbundled formula rates which are subject to annual adjustment and approval processes. In May 2009, the FERC issued an Order approving the interim settlement with respect to rates effective May 1, 2009 representing increases of approximately 3% from prior charges and a return on equity of 11%. Additionally, during May 2009, KU filed the first annual adjustment to the formula rates to incorporate 2008 data, which adjusted formula rates became effective on July 1, 2009.

Separately, the parties were not able to reach agreement on the issue of whether KU must allocate to the municipal customers a portion of renewable resources it procures on behalf of its retail ratepayers. This issue will remain subject to further FERC proceedings and rulings or possible future settlement negotiations.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in KU's Balance Sheets:

(in millions)	June 30, 2009	December 31, 2008
Current regulatory assets:		
ECR	$ 31	$ 20
FAC	6	8
Net MISO exit	2	-
Other	2	4
Total current regulatory assets	$ 41	$ 32
Non-current regulatory assets:		
ARO	$ 29	$ 28
Unamortized loss on bonds	13	13
Net MISO exit	9	19
Hurricane Ike	2	2
Other	6	2
Subtotal non-current other regulatory assets	59	64
Pension and postretirement benefits	127	127
Total non-current regulatory assets	$ 186	$ 191
Current regulatory liabilities:		
DSM	$ 10	$ 5
Total current regulatory liabilities	$ 10	$ 5
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 326	$ 329
Deferred income taxes -- net	13	16
Other	9	15
Total non-current regulatory liabilities	$ 348	$ 360

KU does not currently earn a rate of return on the ECR and FAC regulatory assets and the Virginia levelized fuel factor included in other regulatory assets, which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. KU will recover this asset through pension expense included in the calculation of base rates with the Kentucky Commission and will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. The Company will seek recovery of the Hurricane Ike regulatory asset and other regulatory assets, including the KCCS funding and FERC jurisdictional pension expense, in its next base rate cases. The Company recovers the net MISO exit regulatory asset in Kentucky incurred through April 30, 2008. The Company will also seek recovery of other jurisdictional portions of this asset in its current Virginia base rate case and, due to the formula nature of its FERC rate structure, the FERC jurisdictional portion of the regulatory asset will be included in the annual updates to the rate formula. The Company recovers the remaining regulatory assets, including other regulatory assets comprised of merger surcredit, deferred storm costs, EKPC FERC transmission settlement agreement and Kentucky rate case expenses. Other regulatory liabilities include DSM, FERC jurisdictional supplies inventory and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, per a Kentucky Commission Order, in the next Kentucky base rate case.

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

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

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

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

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

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At June 30, 2009, KU had a regulatory asset of $2 million. In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009, recommended a slight decrease in the factor filed by KU. The Company indicated the Virginia Staff proposal is acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

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

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

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

CMRG and KCCS Contributions. In July 2008, KU and LG&E, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the

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

Other Regulatory Matters

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

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

Storm Restoration. In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates $64 million of operation and maintenance expenses and $34 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration. In May 2009, the KPSC issued a procedural schedule and data discovery continues through August 2009. A regulatory asset has not yet been established.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring

Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges KU from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, KU has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

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

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

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

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

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

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

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

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates effective February 2009. Approval by the Virginia Commission does not preclude the rates from being raised as an issue by any party in KU's current base rate case in Virginia.

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

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008, and to complete the consideration by December 19, 2009. The

Kentucky Commission has established a procedural schedule that allows for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter.

Integrated Resource Plan. Pursuant to the Virginia Commission's December 2008 Order, KU filed its Integrated Resource Plan ("IRP") in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding.

Note 3 - Financial Instruments

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

	June 30, 2009		December 31, 2008	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $228 million as of June 30, 2009 and December 31, 2008)	$ 351	$ 348	$ 351	$ 349
Long-term debt from affiliate	$ 1,231	$ 1,266	$ 1,181	$ 1,117

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market rates are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU is subject to the risk of fluctuating interest rates in the normal course of business. KU's policies allow the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At June 30, 2009, a 100 basis point change in the benchmark rate on KU's variable rate debt would impact pre-tax interest expense by $4 million annually. Although KU's policies allow for the use of interest rate swaps, as of June 30, 2008 and 2009, KU had no interest rate swaps outstanding.

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

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

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

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

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

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

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

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

June 30, 2009

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial assets:			
Energy trading and risk management contracts	$ -	$ 3	$ 3
Total Financial Assets	$ -	$ 3	$ 3

December 31, 2008

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Total Financial Assets	$ -	$ 1	$ 1

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. The aggregate mark-to-market value of all energy trading and risk management contracts with credit risk related contingent features that are in a liability position on June 30, 2009 is less than $1 million, with no collateral posted in the normal course of business. At June 30, 2009, a one notch downgrade of the Company's credit rating would have had no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

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

	Asset Derivatives		Liability Derivatives	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Energy trading and risk management contracts (current)	Other current assets	$ 3	Other current liabilities	$ -
Total		$ 3		$ -

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

For the three and six month periods ended June 30, 2009, the realized gains in electric revenues and other income– net, respectively, for energy trading and risk management contracts were less than $1 million.

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

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

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives: Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Energy trading and risk management contracts (unrealized)	Other income - net	$ -	$ 2
Total		$ -	$ 2

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

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three and six months ended June 30. The tables include the costs associated with both KU employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to KU are approximately 51% and 46% of E.ON U.S. Services costs for June 30, 2009 and 2008, respectively.

Pension Benefits
Three Months Ended June 30,

(in millions)	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 2	$ 1	$ 3	$ 1	$ 1	$ 2
Interest cost	4	2	6	4	2	6
Expected return on plan assets	(3)	(1)	(4)	(4)	(1)	(5)
Amortization of actuarial loss	2	1	3	-	-	-
Benefit cost	$ 5	$ 3	$ 8	$ 1	$ 2	$ 3

(in millions)	Other Postretirement Benefits Three Months Ended June 30,					
	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Interest cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1
Benefit cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1

(in millions)	Pension Benefits Six Months Ended June 30,					
	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 3	$ 3	$ 6	$ 3	$ 2	$ 5
Interest cost	9	4	13	9	3	12
Expected return on plan assets	(7)	(3)	(10)	(10)	(3)	(13)
Amortization of prior service costs	-	1	1	-	1	1
Amortization of actuarial loss	5	1	6	-	-	-
Benefit cost	$ 10	$ 6	$ 16	$ 2	$ 3	$ 5

(in millions)	Other Postretirement Benefits Six Months Ended June 30,					
	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 1	$ -	$ 1
Interest cost	2	-	2	2	-	2
Expected return on plan assets	(1)	-	(1)	-	-	-
Amortization of transitional obligation	1	-	1	-	-	-
Benefit cost	$ 3	$ 1	$ 4	$ 3	$ -	$ 3

In January and April of 2009, KU made contributions to other postretirement benefit plans totaling $3 million. In April 2009, KU made a contribution to a pension plan covering its employees of $13 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. KU's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. KU also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2005 and later years are open, Revenue Agent Reports for 2005-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2005-2006 tax years were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 filed federal income tax return. The tax year 2008 return is also being examined under the CAP program.

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

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

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $5 million and $10 million during the three months ended June 30, 2009 and 2008, and $11 million and $13 million during the six months ended June 30, 2009 and 2008, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

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

Note 6 - Short-Term and Long-Term Debt

KU's long-term debt includes $228 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. The average annualized interest rate for these bonds during the six months ended June 30, 2009, was 0.72%.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of KU. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At June 30, 2009, KU had no bond proceeds in trust included in restricted cash on the balance sheet. At December 31, 2008, KU had $9 million of bond proceeds in trust included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At June 30, 2009, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the six months ended June 30, 2009 and 2008, the average rate on the auction rate bonds was 0.59% and 4.70%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, S&P downgraded the credit rating of Ambac from "A" to "BBB". As a result, S&P downgraded the rating on the Carroll County 2002 Series C bond from "A" to "BBB+" in June 2009. The S&P rating of this bond is now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher.

During 2008, KU converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, KU purchased some of the bonds from the remarketing agent. The bonds that were repurchased from the remarketing agent in 2008 were either defeased or remarketed during 2008.

As of June 30, 2009, KU had no remaining repurchased bonds. During 2008, KU refinanced and remarketed $63 million and refinanced $17 million of pollution control bonds that had been previously repurchased by the Company.

In April 2009, KU borrowed $50 million from Fidelia for a term of 8 years at a fixed rate of 5.28%. The loan is unsecured.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2009	$ 400	$ 61	$ 339	0.30%
December 31, 2008	$ 400	$ 16	$ 384	1.49%

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

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

As of June 30, 2009, KU maintained a bilateral line of credit, with an unaffiliated financial institution, totaling $35 million which matures in June 2012. At June 30, 2009, there was no balance outstanding under this facility. The Company also maintains letter of credit facilities that support $195 million of the $228 million of bonds that can be put back to the Company. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor's payment.

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

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 12 to the financial statements of KU contained therein). See KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit which was removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involved interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. In July 2005, the court issued a summary judgment ruling upholding OMU's contractual right to terminate the OMU agreement in May 2010.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against KU. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding KU an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU, plus pre- and post-judgment interest, and (ii) denying KU's claim for damages based upon sub-par operations and availability of the OMU units. In April 2009, the court issued a ruling on various post-trial motions denying certain challenges to calculation elements of the $9 million award or of interest amounts associated therewith. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with the court's prior rulings and KU has received the agreed settlement amounts.

Construction Program. KU had $83 million of commitments in connection with its construction program at June 30, 2009.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. KU's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $30 million.

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

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

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

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

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

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

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

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 through 2008 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling $705 million during the 2009 through 2011 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

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

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

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

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

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs.

The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In December 2008, the Company reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions. In February 2009, the proposed consent decree was lodged with the Court. In March 2009, the Court entered the consent decree which is now legally in effect.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a proposed settlement with state regulators regarding particulate limits in the air permit for KU's Tyrone generating station, remediation activities for elevated polychlorinated biphenyl levels at existing properties, liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

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

Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

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

Interest Charges

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

KU's intercompany interest expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2009	2008	2009	2008
Interest on money pool loans	$ -	$ -	$ -	$ 1
Interest on Fidelia loans	17	13	33	25

Other Intercompany Billings

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

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

Intercompany billings to and from KU were as follows:

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
E.ON U.S. Services billings to KU	$ 38	$ 72	$ 78	$ 111
KU billings to LG&E	36	14	47	37
LG&E billings to KU	-	4	-	5
KU billings to E.ON U.S. Services	1	1	2	2

In March and June 2009, KU received capital contributions of $50 million and $25 million, respectively from its common shareholder, E.ON U.S.

Note 9 – Subsequent Events

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

On July 27, 2009, KU borrowed $50 million from Fidelia for a period of ten years at a fixed rate of 4.81%.

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

On August 4, 2009, KU and its employees represented by the International Brotherhood of Electrical Workers Local 2100 entered into a new three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers.

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

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

Management's Discussion and Analysis

General

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

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

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 512,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base rates will decrease $9 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates $64 million of operation and maintenance expenses and $34 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

Environmental Matters

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

Results of Operations

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

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

Net Income

Net income for the three months ended June 30, 2009, decreased $2 million compared to the same period in 2008. The decrease was primarily the result of decreased electric revenues ($11 million), decreased other income - net ($7 million) and increased interest expense ($3 million), partially offset by decreased operating expense ($19 million).

Revenues

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

- Decreased wholesale sales ($12 million) due to lower sales volumes to LG&E ($9 million) and third-parties ($3 million) as a result of scheduled coal-fired generation unit outages during April 2009, and lower economic capacity caused by low spot market pricing in the second quarter of 2009. Via a mutual agreement, KU sells its higher cost electricity to LG&E for LG&E's wholesale sales and KU purchases LG&E's lower cost electricity to serve KU's native load.

- Decreased retail sales volumes delivered ($11 million) due to weakened economic conditions
- Decreased purchased power costs billed to customers through the FAC ($7 million) primarily due to refund of purchased power costs related to the OMU settlement
- Decreased DSM revenue ($1 million) due to timing of DSM program spending
- Increased ECR surcharge ($15 million) due to increased recoverable capital spending
- Decreased merger surcredit ($4 million) due to the surcredit termination in February 2009
- Increased miscellaneous revenues ($2 million) due to the initial assessment of late payment fees in the second quarter of 2009

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation decreased $11 million in the three months ended June 30, 2009, primarily due to:

- Decreased volumes of fuel usage ($17 million) due to decreased native load
- Increased commodity and transportation costs for coal and natural gas ($6 million)

Power purchased expense decreased $11 million in the three months ended June 30, 2009, primarily due to:

- Decreased prices for purchases used to serve retail customers ($8 million) due to increased availability of power from OMU in 2009
- Decreased power purchased expense ($7 million) due to refund of power purchased costs related to the OMU settlement
- Increased purchased volumes from LG&E ($2 million). Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load. LG&E was able to provide higher volumes due to LG&E's reduced native load requirements as a result of milder weather and the weakened economy.
- Increased third-party purchased volumes for native load ($2 million) as a result of scheduled coal-fired generation unit outages and lower economic capacity caused by low spot market pricing during the majority of the second quarter of 2009

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

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

- Increased pension expense ($2 million) due to lower 2008 pension asset investment performance
- Increased steam expense ($1 million) due to utilization of SCRs year-round
- Decreased transmission expense ($1 million) due to reduced third-party native load transmission purchase volumes
- Decreased distribution expense ($1 million) due to repair of overhead lines and administrative support costs as a result of storm restoration

Other income – net decreased $7 million, primarily due to:

- Decreased $9 million due to lower subsidiary equity earnings from Electric Energy, Inc.
- Increased $1 million due to life insurance proceeds
- Increased $1 million due to settlement of Brown Station new source review litigation

Interest expense, including interest expense to affiliated companies, increased $3 million in the three months ended June 30, 2009, primarily due to interest on increased borrowings to affiliated companies ($4 million) offset by decreased interest on bonds ($1 million) due to lower interest rates.

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	2.2	2.3
Dividends received deduction related to Electric Energy Inc. investment	(3.9)	(6.2)
Qualified production activities deduction	0.3	(1.9)
Amortization of investment tax credits	(0.1)	(0.3)
Nondeductible life insurance	(0.5)	(0.3)
Excess deferred taxes on depreciation	(1.1)	(1.3)
Other differences	(2.2)	0.9
Effective income tax rate	29.7 %	28.2 %

The effective income tax rate increased for the three months ended June 30, 2009, compared to the three months ended June 30, 2008, primarily due to a decrease in the dividends received deduction, related to a decrease in dividends received from Electric Energy Inc., in the second quarter of 2009.

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

Net Income

Net income for the six months ended June 30, 2009, decreased $41 million compared to the same period in 2008. The decrease was primarily the result of increased operating expense ($49 million), decreased other income – net ($9 million), increased interest expense ($3 million) and decreased electric revenue ($2 million), partially offset by decreased income taxes ($22 million).

Revenues

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

- Decreased retail sales volumes delivered ($27 million) due to weakened economic conditions

- Decreased wholesale sales ($20 million) due to lower sales volumes to LG&E ($15 million) and third-parties ($5 million) as a result of scheduled coal-fired generation unit outages during January through April 2009, and lower economic capacity caused by low spot market pricing during the majority of 2009. Via a mutual agreement, KU sells its higher cost electricity to LG&E for LG&E's wholesale sales and KU purchases LG&E's lower cost electricity to serve KU's native load.
- Decreased base rates ($3 million) due to the application of the Kentucky base rate settlement in February 2009, partially offset by the increase in Virginia levelized fuel factor
- Decreased DSM revenue ($2 million) due to timing of DSM program spending
- Increased ECR surcharge ($26 million) due to increased recoverable capital spending
- Increased fuel costs billed to customers through the FAC ($13 million) due to increased fuel prices, partially offset by a refund of purchased power costs from OMU
- Decreased merger surcredit ($8 million) due to a lower rate approved by the Kentucky Commission in June 2008 and the surcredit termination in February 2009
- Increased miscellaneous revenue ($2 million) resulting from the initial assessment of late payment fees in the second quarter of 2009
- Decreased VDT surcredit ($1 million) due to termination in August 2008

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation decreased $18 million in the six months ended June 30, 2009, primarily due to:

- Decreased volumes of fuel usage ($41 million) due to decreased native load
- Increased commodity and transportation costs for coal ($23 million)

Power purchased expense decreased $3 million in the six months ended June 30, 2009, primarily due to:

- Decreased prices for purchases used to serve retail customers ($11 million) due to increased availability of power from OMU and lower spot market pricing in 2009
- Decreased power purchased expense ($7 million) due to a refund of power purchased costs related to the OMU settlement
- Increased third-party purchased volumes for native load ($7 million) as a result of scheduled coal-fired generation unit outages and lower economic capacity caused by low spot market pricing in March 2009, and the majority of the second quarter of 2009
- Increased purchased volumes from LG&E ($5 million) and higher prices ($2 million). Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load. LG&E was able to provide higher volumes due to LG&E's reduced native load requirements as a result of milder weather and the weakened economy.
- Increased demand payments ($2 million) for energy purchased on a long-term contract

Other operation and maintenance expense increased $67 million in the six months ended June 30, 2009, due to increased maintenance expense ($56 million) and increased other operation expense ($11 million).

Maintenance expense increased $56 million in the six months ended June 30, 2009, primarily due to:

- Increased distribution expense ($50 million) primarily due to the 2009 winter storm restoration
- Increased steam expense ($4 million) due to increased scope of work for scheduled outages
- Increased transmission expense ($1 million) primarily due to the 2009 winter storm restoration
- Increased maintenance expense ($1 million) due to a scheduled combustion turbine outage in 2009 and none in 2008

Other operation expense increased $11 million in the six months ended June 30, 2009, primarily due to:

- Increased pension expense ($8 million) due to lower 2008 pension asset investment performance
- Increased distribution expense ($4 million) primarily due to the 2009 winter storm restoration
- Increased steam expense ($3 million) due to utilization of SCRs year-round
- Increased administrative and general expense ($3 million) due to consulting fees for software training and increased labor and benefit costs
- Increased property tax ($1 million) due to higher tax assessment resulting from construction expenditures
- Decreased administrative and general expense ($6 million) due to timing of DSM expenditures, decrease in uncollectible accounts resulting from favorable OMU litigation and outside services for legal fees
- Decreased maintenance expense ($2 million) due to fewer unit outages

Other income – net decreased $9 million, primarily due to:

- Decreased $14 million due to lower subsidiary equity earnings from Electric Energy, Inc.
- Increased $2 million due to life insurance proceeds
- Increased $2 million due to a gain on the mark-to-market power purchase swaps resulting from price decreases in 2009 and price increases in 2008
- Increased $1 million due to settlement of Brown Station new source review litigation

Interest expense, including interest expense to affiliated companies, increased $3 million in the six months ended June 30, 2009, primarily due to increased borrowings with affiliated companies ($7 million) offset by decreased interest on bonds ($4 million) due to lower interest rates.

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

	Six Months Ended June 30, 2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	0.9	2.4
Dividends received deduction related to Electric Energy Inc. investment	(7.1)	(4.0)
Qualified production activities deduction	(1.1)	(1.4)
Amortization of investment tax credits	(0.1)	(0.1)
Nondeductible life insurance	(0.8)	(0.3)
Excess deferred taxes on depreciation	(1.7)	(0.9)
Other differences	(1.8)	(0.5)
Effective income tax rate	23.3 %	30.2 %

The effective income tax rate decreased for the six months ended June 30, 2009, compared to the six months ended June 30, 2008, due to decreased pretax income resulting from the 2009 winter storm expenses. The variances between the individual line items are primarily due to amounts for the period ended June 30, 2009, representing a greater proportion of pretax income. The pretax income decreased 59% for the six months ended June 30, 2009, compared to the six months ended June 30, 2008.

Liquidity and Capital Resources

KU uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent mainly to fund construction of plant and equipment. As of June 30, 2009, KU had a working capital deficiency of $205 million, primarily due to the terms of certain tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. See Note 6 of Notes to Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

The $86 million decrease in net cash from operating activities for the six months ended June 30, 2009 compared to June 30, 2008, was primarily the result of changes in:

- Accounts payable ($26 million) primarily due to payments relating to 2009 winter storm restoration, timing of other payments and lower accruals
- Pension and postretirement funding ($15 million) due to valuation related to market conditions
- Materials and supplies ($13 million) primarily due to increased fuel inventory
- Other ($11 million)
- Earnings, net of non-cash items ($10 million)
- Accounts receivable ($9 million)

- Environmental cost recovery receivable ($4 million)
- Fuel adjustment clause receivable, net ($2 million)

These decreases were partially offset by changes in:
- Other current liabilities ($2 million)
- Accrued income taxes ($1 million)
- Prepayments and other current assets ($1 million)

Investing Activities

Net cash used for investing activities decreased $90 million in the six months ended June 30, 2009, compared to 2008. The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $271 million and $355 million in the six months ended June 30, 2009 and 2008, respectively, a net decrease of $84 million. The remaining decrease in net cash used for investing activities is due to a decrease in assets transferred from LG&E for TC2 of $10 million, partially offset by realized gains on risk management contracts of $2 million and decreased funds received from restricted cash of $2 million representing escrow proceeds from the pollution control bonds.

Financing Activities

Net cash inflows from financing activities were $169 million and $172 million in the six months ended June 30, 2009 and 2008, respectively, resulting in a decrease in net cash provided by financing activities of $3 million. The decrease in financing inflows is due to decreased long-term borrowings from affiliates of $25 million and decreased short-term borrowings net of repayments from an affiliated company of $8 million, partially offset by decreased reacquisition of bonds of $30 million.

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

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three year period ending December 31, 2011, to total approximately $1,325 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $360 million, on-going construction related to distribution assets totaling approximately $250 million, on-going construction related to generation assets totaling approximately $220 million, ash pond and landfill projects totaling approximately $185 million, construction of TC2 totaling approximately $165 million (including $30 million for environmental controls), the Brown SCR totaling approximately $110 million, and information technology projects of approximately $35 million.

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

KU has a variety of funding alternatives available to meet its capital requirements. KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds of up to $400 million available to the Company at market-based rates. Fidelia also provides long-term intercompany funding to KU. See Notes 6 and 9 of Notes to Financial Statements.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million. As of June 30, 2009, KU has borrowed $61 million of this authorized amount. See Note 6 of Notes to Financial Statements.

KU's debt ratings as of June 30, 2009, were:

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

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

Controls and Procedures

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

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

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

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

Legal Proceedings

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

Other

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

2009 - 1st Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

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

INDEX OF ABBREVIATIONS

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

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Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
OPERATING REVENUES		
Total operating revenues (Note 8)	$ 361	$ 352
OPERATING EXPENSES		
Fuel for electric generation	115	123
Power purchased (Note 8)	64	56
Other operation and maintenance expenses (Note 2)	132	66
Depreciation and amortization	33	32
Total operating expenses	344	277
Operating income	17	75
Other expense (income) – net	(7)	(9)
Interest expense (Note 6)	2	4
Interest expense to affiliated companies (Notes 6 and 8)	16	12
Income before income taxes	6	68
Federal and state income tax (benefit) expense (Note 5)	(1)	22
Net income	$ 7	$ 46

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Balance at beginning of period	$ 1,195	$ 1,037
Net income	7	46
Balance at end of period	$ 1,202	$ 1,083

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 2	$ 2
Restricted cash	8	10
Accounts receivable – less reserve of $3 million as of March 31, 2009 and December 31, 2008	163	177
Materials and supplies:		
Fuel (predominantly coal)	86	73
Other materials and supplies	36	36
Regulatory assets (Note 2)	39	32
Prepayments and other current assets	8	10
Total current assets	342	340
Other property and investments	25	29
Utility plant:		
At original cost	5,749	5,622
Less: reserve for depreciation	1,731	1,724
Net utility plant	4,018	3,898
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	127	127
Other	59	64
Cash surrender value of key man life insurance	39	39
Other assets	12	11
Total deferred debits and other assets	237	241
Total assets	$ 4,622	$ 4,508

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2009	December 31, 2008
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 228	$ 228
Notes payable to affiliated companies (Notes 6 and 8)	13	16
Accounts payable	214	161
Accounts payable to affiliated companies (Note 8)	39	38
Customer deposits	21	21
Deferred income taxes – net (Note 5)	30	30
Regulatory liabilities (Note 2)	10	5
Other current liabilities	23	27
Total current liabilities	578	526
Long-term debt:		
Long-term bonds (Note 6)	123	123
Long-term debt to affiliated company (Notes 6 and 8)	1,181	1,181
Total long-term debt	1,304	1,304
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	250	250
Accumulated provision for pensions and related benefits (Note 4)	192	186
Investment tax credit (Note 5)	85	80
Asset retirement obligations	33	32
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	330	329
Deferred income taxes - net	15	16
Other	8	15
Other liabilities	26	26
Total deferred credits and other liabilities	939	934
Common equity:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital (Note 9)	291	241
Retained earnings	1,185	1,174
Undistributed subsidiary earnings	17	21
Total retained earnings	1,202	1,195
Total common equity	1,801	1,744
Total liabilities and equity	$ 4,622	$ 4,508

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7	$ 46
Items not requiring cash currently:		
Depreciation and amortization	33	32
Deferred income taxes – net	2	3
Investment tax credit	5	3
Provision for pension and post retirement plans	7	(3)
Other	4	(1)
Changes in current assets and liabilities:		
Accounts receivable	14	26
Materials and supplies	(13)	5
Accounts payable	37	(10)
Accrued income taxes	(1)	17
Prepayments and other current assets	2	1
Other current liabilities	(4)	1
Pension and postretirement funding	(1)	(1)
Fuel adjustment clause receivable, net	(1)	11
Environmental cost recovery receivable	(3)	(3)
Other	(5)	-
Net cash provided by operating activities	83	127
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(130)	(184)
Energy trading and risk management contracts	(2)	-
Restricted cash	2	5
Net cash used for investing activities	(130)	(179)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional paid-in capital (Note 8)	50	25
Short-term borrowings from affiliated company (Note 6)	244	291
Repayment of short-term borrowings from affiliated company (Note 6)	(247)	(264)
Net cash provided by financing activities	47	52
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2	$ -

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

FSP SFAS 107-1 and APB 28-1

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

FSP SFAS 132(R)-1

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

SFAS No. 161

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

SFAS No. 160

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

SFAS No. 157

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

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

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

Note 2 - Rates and Regulatory Matters

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

Virginia Rate Case

In April 2009, KU provided notice to the Virginia Commission indicating its intent to submit an application for an increase in base electric rates. The application is anticipated to be filed during the second quarter of 2009 and use calendar year 2008 as a test year.

Kentucky Rate Case

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base rates will decrease $9 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requests a shift from current, all-in stated unit charge rates to an unbundled formula rate. The revised rates represent varying increases of 6% to 7% from current charges and include a change from the all-in stated applicable return on equity of 11.8%. The proceeding involves data requests and hearings before the FERC, as well as data requests and filings by intervenors. In November 2008, the FERC issued an Order to suspend rates until May 1, 2009, at which time the applied for rates will become effective, subject to potential refund or adjustment, based upon the outcome of the proceedings. In May 2009, as a result of settlement negotiations, KU submitted an unopposed motion informing the FERC of the filing of a settlement agreement and agreed-upon seven-year service agreements with the municipal customers. The unopposed motion also requested interim rate structures containing terms corresponding to the overall settlement principles, to be effective from May 1, 2009, until FERC approval of the settlement agreement. The settlement and service agreements will provide for unbundled formula rates which are subject to annual adjustment and approval processes and which represent increases of approximately 3% from current charges and include a return on equity charge of 11%. KU's motion requests FERC approval of the interim rates and settlement arrangements. Separately, the parties were not able to reach agreement on the issue of whether KU must allocate to the municipal customers a portion of renewable resources it procures on behalf of its retail ratepayers. This issue will remain subject to further FERC proceedings and rulings or possible future settlement negotiations.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in KU's Balance Sheets:

(in millions)	March 31, 2009	December 31, 2008
Current regulatory assets:		
ECR	$ 23	$ 20
FAC	9	8
Net MISO exit	2	-
Other	5	4
Total current regulatory assets	$ 39	$ 32
Non-current regulatory assets:		
ARO	$ 28	$ 28
Unamortized loss on bonds	13	13
Net MISO exit	10	19
Hurricane Ike	2	2
Other	6	2
Subtotal non-current other regulatory assets	59	64
Pension and postretirement benefits	127	127
Total non-current regulatory assets	$ 186	$ 191
Current regulatory liabilities:		
DSM	$ 10	$ 5
Total current regulatory liabilities	$ 10	$ 5
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 330	$ 329
Deferred income taxes – net	15	16
Other	8	15
Total non-current regulatory liabilities	$ 353	$ 360

KU does not currently earn a rate of return on the ECR, FAC regulatory asset and the Virginia levelized fuel factor included in other regulatory assets, which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. KU will recover this asset through pension expense included in the calculation of base rates with the Kentucky Commission and will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. The Company will seek recovery of the Hurricane Ike regulatory asset and other regulatory assets including the KCCS funding and FERC jurisdictional pension expense in its next base rate cases. The Company recovers the net MISO exit regulatory asset in Kentucky incurred through April 30, 2008, and will seek recovery of subsequent net MISO exit costs in future base rate cases. KU will also seek recovery of other jurisdictional portions of this asset in its next Virginia and FERC base rate cases. The Company recovers the remaining regulatory assets, including other regulatory assets comprised of merger surcredit, deferred storm costs, EKPC FERC transmission settlement agreement and Kentucky rate case expenses. Other regulatory liabilities include DSM, FERC jurisdictional supplies inventory and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against costs of withdrawing from the MISO, per a Kentucky Commission Order, in the next base rate case.

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

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

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

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

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At March 31, 2009, KU had a regulatory asset of $4 million. In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009, recommended a slight decrease in the factor filed by KU. The Company has indicated the Virginia Staff proposal is acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

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

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

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

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

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

EKPC FERC Transmission Settlement Agreement. KU received approval to establish a regulatory asset for $2 million related to the transmission settlement agreement with EKPC as part of the 2008 base rate case. These costs resulted from KU's exit from the MISO and will be amortized over five years.

Other Regulatory Matters

Storm Restoration. In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates $64 million of operation and maintenance expenses and $34 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges KU from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, KU has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans. See Note 9, Subsequent Events, for information regarding the anticipated filing of an application regarding base electric rates in Virginia.

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

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

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

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

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

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

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines –

Kentucky that were developed by all parties to the proceeding. KU does not expect any impact as a result of this Order. In April 2009, KU filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order.

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

Note 3 - Financial Instruments

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

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

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

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

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

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

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

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

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial assets:			
Energy trading and risk management contracts	$ -	$ 4	$ 4
Total financial assets	$ -	$ 4	$ 4
Financial liabilities:			
Energy trading and risk management contracts	$ -	$ 1	$ 1

Total financial liabilities	$ -	$ 1	$ 1

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

The aggregate mark-to-market value of all energy trading and risk management contracts with credit risk related contingent features that are in a liability position on March 31, 2009 is less than $1 million, with no collateral posted in the normal course of business. At March 31, 2009, a downgrade of the Company's credit rating would have had no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

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

	Asset Derivatives		Liability Derivatives	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Energy trading and risk management contracts (current)	Other current assets	$ 4	Other current liabilities	$ 1
Total		$ 4		$ 1

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

For the three months ended March 31, 2009, the realized and unrealized gains in electric revenues and other (income) expense – net, respectively, for energy trading and risk management contracts were less than $1 million.

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three months ended March 31. The tables include the costs associated with both KU employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to KU are approximately 51% and 46% of E.ON U.S. Services costs for March 31, 2009 and 2008, respectively.

(in millions)	Pension Benefits					
	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 2	$ 1	$ 3	$ 1	$ 1	$ 2
Interest cost	5	2	7	5	1	6
Expected return on plan assets	(4)	(1)	(5)	(5)	(1)	(6)
Amortization of actuarial loss	2	1	3	-	-	-
Benefit cost at end of year	$ 5	$ 3	$ 8	$ 1	$ 1	$ 2

	Other Postretirement Benefits					
	2009			2008		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ -	$ -	$ -
Interest cost	1	-	1	1	-	1
Benefit cost at end of year	$ 2	$ 1	$ 3	$ 1	$ -	$ 1

In January 2009, KU made a contribution to other postretirement benefit plans of $1 million. In April 2009, KU made a contribution to a pension plan covering its employees of $13 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. KU's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. KU also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2005 and later years are open, Revenue Agent Reports for 2005-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2005-2006 tax years were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. KU had no adjustments for the 2007 filed federal income tax return. The tax year 2008 return is also being examined under the CAP program.

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

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

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $5 million and $3 million during the three months ended March 31, 2009 and 2008, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

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

Note 6 - Short-Term and Long-Term Debt

KU's long-term debt includes $228 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. The average annualized interest rate for these bonds during the three months ended March 31, 2009, was 0.82%.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky.

A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of KU. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At March 31, 2009 and at December 31, 2008, KU had $8 million and $9 million, respectively, of bond proceeds in trust included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2009, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the three months ended March 31, 2009 and 2008, the average rate on the auction rate bonds was 0.65% and 4.82%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. There were no changes to the Company's bond ratings from S&P or Moody's during the three months ended March 31, 2009.

During 2008, KU converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, KU purchased some of the bonds from the remarketing agent. The bonds that were repurchased from the remarketing agent in 2008 were either defeased or remarketed during 2008.

As of March 31, 2009, KU had no remaining repurchased bonds. During 2008, KU refinanced and remarketed $63 million and refinanced $17 million of pollution control bonds that had been previously repurchased by the Company.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2009	$ 400	$ 13	$ 387	0.75%
December 31, 2008	$ 400	$ 16	$ 384	1.49%

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

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

As of March 31, 2009, KU maintained a bilateral line of credit, with an unaffiliated financial institution, totaling $35 million which matures in June 2012. At March 31, 2009, there was no balance outstanding under this facility. The Company also maintains letter of credit facilities that support $195 million of the $228 million of bonds that can be put back to the Company. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor's payment.

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

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 12 to the financial statements of KU contained therein). See KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. In July 2005, the court issued a summary judgment ruling upholding OMU's contractual right to terminate the OMU agreement in May 2010.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor, including determinations that KU's interpretation of facilities charge fund payments was accurate; that KU is the proportionate owner of NOx allowances allocated to the OMU plant by the government; that OMU's claims disputing various back-up power charges should be dismissed and that KU's counterclaim based on operations and maintenance practices should proceed to trial. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against KU. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding KU an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU, and (ii) denying KU's claim for damages based upon sub-par operations and availability of the OMU units. In April 2009, the court issued a ruling on various post-trial motions denying certain challenges to calculation elements of the $9 million award or of interest amounts associated therewith. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with the court's prior rulings.

Construction Program. KU had $22 million of commitments in connection with its construction program at March 31, 2009.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. KU's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $25 million.

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

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

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

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

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

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 through 2008 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling $720 million during the 2009 through 2011 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

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

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

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

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In December 2008, the Company reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions. In February 2009, the proposed consent decree was lodged with the Court. In March 2009, the Court entered the consent decree which is now legally in effect.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation activities for elevated polychlorinated biphenyl levels at existing properties, liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

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

Electric Purchases

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

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

Interest Charges

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

KU's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2009	2008
Interest on Fidelia loans	$ 16	$ 13

For the three months ended March 31, 2009 and 2008, the interest on money pool loans was less than $1 million.

Other Intercompany Billings

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

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

Intercompany billings to and from KU for the three months ended March 31, were as follows:

(in millions)	2009	2008
E.ON U.S. Services billings to KU	$ 40	$ 39
KU billings to LG&E	11	23
LG&E billings to KU	-	1
KU billings to E.ON U.S. Services	1	1

In March 2009, KU received a capital contribution of $50 million from its common shareholder, E.ON U.S.

Note 9 – Subsequent Events

On April 1, 2009, KU provided a notice to the Virginia Commission indicating its intent to submit an application for an increase in base electric rates. The application is anticipated to be filed during the second quarter of 2009 and use calendar year 2008 as a test year.

On April 14, 2009, KU made a contribution to a pension plan covering its employees of $13 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million.

On April 24, 2009, KU borrowed $50 million from Fidelia for a term of 8 years at a fixed rate of 5.28%. The loan is unsecured.

On April 30, 2009, the Company filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the 2009 winter storm restoration.

On May 6, 2009, KU and the parties to its FERC application requesting increases in wholesale electric rates filed a settlement agreement with the FERC. The settlement, if accepted by the FERC, will resolve the rate proceeding and establish new seven-year wholesale electric service contracts with KU. The settlement excludes a limited issue relating to renewable energy.

On May 6, 2009, the FERC issued an Order on the requests for rehearing on one November 2008 Order relating to the MISO RSG calculation and resettlement procedures. The Order changed the effective date and reduces potential RSG resettlement costs by less than $1 million.

On May 6, 2009, the appellate court denied a KU and LG&E petition to lift the stay in the TC2 transmission easement matters. The appellate court issued an Order generally (i) retaining the stay until a decision on the merits and (ii) delaying such decision on the merits pending developments in the Supreme Court CCN proceeding.

On May 11, 2009, KU and OMU executed a settlement agreement resolving the power supply contract litigation on a basis consistent with the court's prior rulings.

On May 11, 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

Management's Discussion and Analysis

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three month period ended March 31, 2009, and should be read in connection with the financial statements and notes thereto.

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

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 509,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

In January 2009, KU, the AG, KIUC and all other parties to the base rate case filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, KU's base rates will decrease $9 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $16 million annually.

In January 2009, a significant winter ice storm passed through KU's service territory causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. KU currently estimates $64 million of operation and maintenance expenses and $34 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $62 million in incremental operation and maintenance expenses related to the storm restoration.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $3 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

Environmental Matters

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

Results of Operations

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

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

Net Income

Net income for the three months ended March 31, 2009, decreased $39 million compared to the same period in 2008. The decrease was primarily the result of increased operating expense ($67 million), increased interest expense ($2 million) and decreased other income - net ($2 million), partially offset by decreased income taxes ($23 million) and increased electric revenues ($9 million).

Revenues

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

- Increased fuel costs billed to customers through the FAC ($20 million) due to increased fuel prices
- Increased ECR surcharge ($11 million) due to increased recoverable capital spending

- Decreased merger surcredit ($4 million) due to a lower rate approved by the Kentucky Commission in June 2008 and the surcredit termination in February 2009
- Decreased retail sales volumes delivered ($18 million) due to weakening economic conditions, significant 2009 storm outages and a 4% decrease in heating degree days
- Decreased wholesale sales ($7 million) due to lower sales volumes to LG&E ($6 million) and third-parties ($2 million) as a result of excess generation made available by LG&E via a mutual agreement. KU sells its higher cost electricity to LG&E for its wholesale sales and KU purchases LG&E's lower cost electricity to serve its native load. Both KU and LG&E experienced lower wholesale sales due to more scheduled coal-fired generation unit outages during the first quarter of 2009 and KU units held in reserve as a result of low spot market pricing in March 2009. Prices also increased for sales to KU ($1 million) due to higher cost of fuel in inventory.

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation decreased $8 million in the three months ended March 31, 2009, primarily due to:

- Decreased volumes of coal usage ($24 million) due to decreased native load
- Increased commodity and transportation costs for coal ($16 million)

Power purchased expense increased $8 million in the three months ended March 31, 2009, primarily due to:

- Increased third-party power purchase volume for native load ($5 million) due to increased scheduled coal-fired generation unit outages and KU's units held in reserve as a result of low spot market pricing in March 2009
- Increased power purchased from LG&E via a mutual agreement due to higher volumes ($3 million) and higher prices ($2 million). KU purchases LG&E's lower cost electricity to serve its native load. LG&E was able to provide higher volumes due to its reduced native load requirements as a result of milder weather and the weakening economy.
- Increased demand payments ($1 million) for energy purchased on a long-term contract
- Decreased prices for purchases used to serve retail customers ($2 million) due to increased availability of power from a lower-cost resource in 2009

Other operation and maintenance expense increased $66 million in the three months ended March 31, 2009, due to increased maintenance expense ($56 million) and increased other operation expense ($10 million).

Maintenance expense increased $56 million in the three months ended March 31, 2009, primarily due to:

- Increased distribution expense ($46 million) due to tree trimming and maintenance of overhead lines and line transformers as a result of 2009 winter storm restoration
- Increased steam expense ($6 million) due to increased scope of work for scheduled outages
- Increased transmission expense ($3 million) due to maintenance of overhead conductors and devices resulting from 2009 winter storm restoration

Other operation expense increased $10 million in the three months ended March 31, 2009, primarily due to:

- Increased distribution expense ($5 million) due to repair of overhead lines and administrative support costs, including increased call center support and public safety response team support, as a result of 2009 winter storm restoration
- Increased pension expense ($4 million) due to lower 2008 pension asset investment performance
- Increased steam expense ($2 million) due to utilization of SCRs year-round
- Increased administrative and general expense ($2 million) due to consulting fees for software training and increased labor and benefit costs
- Decreased administrative and general expense ($2 million) due to timing of DSM expenditures and outside services for legal fees
- Decreased transmission expense ($1 million) due to the establishment of a regulatory asset approved by the Kentucky Commission for the EKPC settlement

Interest expense, including interest expense to affiliated companies, increased $2 million in the three months ended March 31, 2009, primarily due to increased interest expense to affiliated companies ($5 million) due to increased borrowing partially offset by decreased interest on bonds ($3 million) due to lower interest rates.

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

	Three Months Ended March 31,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	(6.5)	3.1
Qualified production activities deduction	(9.1)	(1.1)
Dividends received deduction related to Electric Energy Inc. investment	(25.4)	(3.5)
Amortization of investment tax credits	(0.5)	(0.1)
Nondeductible life insurance	(2.6)	(0.2)
Excess deferred taxes on depreciation	(5.0)	(0.7)
Other differences	(2.6)	(0.1)
Effective income tax rate	(16.7)%	32.4 %

The effective income tax rate decreased for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, due to decreased pretax income resulting from the 2009 winter storm expenses. The variances between the individual line items are primarily due to amounts for the period ended March 31, 2009, representing a greater proportion of pretax income. The pretax income decreased 91% for the three months ended March 31, 2009, compared to the three months ended March 31, 2008.

Liquidity and Capital Resources

KU uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent mainly to fund construction of plant and equipment. As of March 31, 2009, KU had a working capital deficiency of $236 million, primarily due to the terms of certain tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. See Note 6 of Notes to Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

The $44 million decrease in net cash from operating activities for the three months ended March 31, 2009 compared to March 31, 2008, was primarily the result of changes in:

- Earnings, net of non-cash items ($22 million)
- Accrued income taxes ($18 million) primarily due to lower income before taxes
- Materials and supplies ($18 million) primarily due to increased fuel inventory
- Accounts receivable ($12 million) due to decreased heating degree days and timing of billing cycle
- Fuel adjustment clause receivable, net ($12 million) due to the timing of collections
- Other current liabilities ($5 million)
- Other ($5 million)

These decreases were partially offset by changes in:

- Accounts payable ($47 million) primarily due to accruals related to 2009 winter storm restoration
- Prepayments and other current assets ($1 million)

Investing Activities

Net cash used for investing activities decreased $49 million in the three months ended March 31, 2009, compared to 2008. The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $130 million and $184 million in the three months ended March 31, 2009 and 2008, respectively, a net decrease of $54 million. The decrease in restricted cash of $3 million represents the escrowed proceeds of the pollution control bonds issued, which were disbursed as qualifying costs were incurred and realized gains on energy trading and risk management contracts of $2 million.

Financing Activities

Net cash inflows from financing activities were $47 million and $52 million in the three months ended March 31, 2009 and 2008, respectively, resulting in a decrease in net cash provided by financing activities of $5 million. The decrease in financing inflows is due to decreased short-term borrowings net of repayments from an affiliated company of $30 million, partially offset by increased equity contributions from E.ON U.S. of $25 million.

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

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three year period ending December 31, 2011, to total approximately $1,325 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $360 million, on-going construction related to distribution assets totaling approximately $250 million, on-going construction related to generation assets totaling approximately $220 million, ash pond and landfill projects totaling approximately $185 million, construction of TC2 totaling approximately $165 million (including $30 million for environmental controls), the Brown SCR totaling approximately $110 million, and information technology projects of approximately $35 million.

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

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

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million. As of March 31, 2009, KU has borrowed $13 million of this authorized amount. See Note 6 of Notes to Financial Statements.

KU's debt ratings as of March 31, 2009, were:

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

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

Controls and Procedures

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

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

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

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

Legal Proceedings

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

Other

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

2008 – 3rd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

(Unaudited)

As of September 30, 2008 and December 31, 2007
and for the three-month and nine-month periods ended
September 30, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Kentucky Utilities Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
kWh	Kilowatt Hours
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OPERATING REVENUES:				
Total operating revenues	$ 371	$ 345	$ 1,039	$ 963
OPERATING EXPENSES:				
Fuel for electric generation	147	138	380	354
Power purchased	54	39	164	129
Other operation and maintenance expenses	67	62	208	184
Depreciation and amortization	36	31	99	89
Total operating expenses	304	270	851	756
OPERATING INCOME	67	75	188	207
Other expense (income) – net	(13)	(7)	(31)	(23)
Interest expense (Notes 5 and 6)	3	3	10	11
Interest expense to affiliated companies (Note 8)	15	11	41	29
INCOME BEFORE INCOME TAXES	62	68	168	190
Federal and state income taxes (Note 5)	19	18	51	60
NET INCOME	$ 43	$ 50	$ 117	$ 130

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

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	$ 1,111	$ 950	$ 1,037	$ 870
Net income	43	50	117	130
Balance at end of period	$ 1,154	$ 1,000	$ 1,154	$ 1,000

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	September 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 2	$ -
Restricted cash	1	11
Accounts receivable – less reserves of $3 million and $2 million as of September 30, 2008 and December 31, 2007, respectively	176	172
Accounts receivable from affiliated companies (Note 8)	8	17
Materials and supplies:		
Fuel (predominantly coal)	59	42
Other materials and supplies	36	34
Prepayments and other current assets	3	12
Total current assets	285	288
Other property and investments	33	29
Utility plant:		
At original cost	5,459	4,939
Less: reserve for depreciation	1,705	1,622
Net utility plant	3,754	3,317
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	28	28
Other	96	86
Cash surrender value of key man life insurance	38	37
Other assets	10	11
Total deferred debits and other assets	172	162
Total assets	$ 4,244	$ 3,796

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 33	$ 33
Notes payable to affiliated companies (Notes 6 and 8)	116	23
Accounts payable	141	160
Accounts payable to affiliated companies (Note 8)	41	48
Customer deposits	20	20
Other current liabilities	31	28
Total current liabilities	382	312
Long-term debt:		
Long-term debt (Note 6)	220	300
Long-term debt to affiliated company (Notes 6 and 8)	1,106	931
Total long-term debt	1,326	1,231
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	284	285
Accumulated provision for pensions and related benefits (Note 4)	88	83
Investment tax credit (Note 5)	77	55
Asset retirement obligation	32	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	323	310
Deferred income taxes - net	17	22
Other	18	10
Other liabilities	20	23
Total deferred credits and other liabilities	859	818
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	215	90
Retained earnings	1,129	1,016
Undistributed subsidiary earnings	25	21
Total retained earnings	1,154	1,037
Total common equity	1,677	1,435
Total liabilities and equity	$ 4,244	$ 3,796

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 117	$ 130
Items not requiring cash currently:		
Depreciation and amortization	99	89
Deferred income taxes – net	(3)	(2)
Investment tax credit – net	22	28
Other	2	2
Changes in current assets and liabilities:		
Accounts receivable	4	(1)
Material and supplies	(19)	15
Accounts payable	15	(22)
Prepayments and other current assets	-	9
Other current liabilities	4	(3)
Pension funding	(2)	(13)
Fuel adjustment clause receivable, net	4	(22)
Other	0	(1)
Net cash provided by operating activities	243	209
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(554)	(512)
Asset transferred from affiliate (Note 8)	(10)	-
Change in restricted cash	10	(17)
Net cash used for investing activities	(554)	(529)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds	-	(107)
Issuance of pollution control bonds	-	81
Additional paid-in capital	125	55
Long-term borrowings from affiliated company (Note 6)	175	278
Short-term borrowings from affiliated company – net (Note 6)	93	8
Reacquired bonds	(80)	-
Net cash provided by financing activities	313	315
CHANGE IN CASH AND CASH EQUIVALENTS	2	(5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2	$ 1

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited financial statements and notes should be read in conjunction with the Company's financial statements and additional information for the year ended December 31, 2007, including the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and the Company elected not to fair value its eligible financial assets and liabilities.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and AROs, as required, are now provided.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	September 30, 2008	December 31, 2007
ARO	$ 27	$ 24
Unamortized loss on bonds	12	10
MISO exit	19	20
FAC	14	17
ECR	19	11
Other	5	4
Subtotal	96	86
Pension and postretirement benefits	28	28
Total regulatory assets	$ 124	$ 114
Accumulated cost of removal of utility plant	$ 323	$ 310
Deferred income taxes – net	17	22
Other	18	10
Total regulatory liabilities	$ 358	$ 342

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. KU is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case and will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU is seeking recovery of this asset with the Kentucky Commission as part of the current base rate case and will seek recovery of this asset in future proceedings with the Virginia Commission. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next base rate case.

MISO Exit. KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's base rate case, for which a hearing is scheduled for KU's Kentucky base rate case beginning on January 13, 2009. The Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In August 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period November 1, 2007 through April 30, 2008. A hearing was held on October 7, 2008. A second hearing has been scheduled for November 25, 2008, for the sole purpose of hearing public comments, if any, from several counties in which the newspapers failed to publish notice as requested in a timely manner. An order is expected in December of 2008 or the first quarter of 2009.

In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in June 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under-collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU has agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kWh from the factor in effect for the April 2007 through March 2008 period.

ECR. In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of KU's environmental surcharge. The Kentucky Commission issued an Order in August 2008, approving the charges and credits billed through the ECR during the review period and the rate of return on capital.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

Hurricane Ike Wind Storm. In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through KU's service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $3 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Base Rate Case. In July 2008, KU filed an application with the Kentucky Commission requesting increases in base electric rates of 2.0% or $22 million annually. A hearing is scheduled beginning on January 13, 2009. The requested rates have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding. In conjunction with the filing of the application for a change in base rates, based on previous orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $16 million increase in revenues annually.

FERC Wholesale Rate Case. In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requests a shift from current, all-in stated unit charge rates to an unbundled and formula rate. The revised rates represent an increase of 6% to 7% of current charges and requests a change from the all-in stated applicable return on equity of 12%. The proceeding involves data requests or hearings before the FERC, as well as data requests and filings by intervenors. An order in the proceeding may occur in early 2009.

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

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by KU and LG&E,

together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, KU, LG&E and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. KU and LG&E filed a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal, which motion has been opposed by the counter-parties.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. All rights of way for one transmission line have been acquired. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line, a Meade County, Kentucky court issued a ruling upholding the objections of two property co-owners and dismissed the condemnation proceeding pending the completion of the CCN appeal described above. KU and LG&E have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the condemnation litigation. Additional condemnation proceedings involving other parcels of property to support this transmission line are also pending in neighboring Hardin County where three landowners have challenged KU's and LG&E's right to easements, on the same grounds cited by the Meade County court and other purported bases, including asserted deficiencies in the air permit relating to the TC2 generation unit. In May, July and August 2008, the Hardin County Circuit Court issued rulings denying the property owners' various motions, finding that KU and LG&E had established their condemnation rights and granting judgment in favor of KU and LG&E. In August 2008, the property owners petitioned for intermediate relief to the Kentucky Court of Appeals and received a stay preventing KU and LG&E access to the properties. KU and LG&E have made responsive pleadings at the Court of Appeals and continue to engage in settlement negotiations with the property owners. In a separate, further proceeding, certain landowners have filed a lawsuit in federal court in Louisville, Kentucky against the U.S. Army, KU and LG&E alleging that the U.S. Army failed to comply with Section 106 of the National Historic Preservation Act in granting an easement across Fort Knox. KU and LG&E are working with the U.S. Army in defending against the claims. KU and LG&E are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these real property proceedings.

Merger Surcredit. In December 2007, KU submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008, to the Kentucky Commission. In June 2008, the Kentucky Commission issued an Order approving a settlement which provides for continuation of the merger surcredit until new base rates go into effect.

VDT. In accordance with the Kentucky Commission's Order dated March 24, 2006, the VDT surcredit terminated in the first billing month after the filing for a change in base rates. As KU filed its application with the Kentucky Commission for an increase in base rates in July 2008, the VDT surcredit terminated with the first billing cycle in August 2008.

DSM. In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. During May 2008, the SERC and KU agreed in principle to a settlement involving penalties totaling less than $1 million concerning KU's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC and KU are currently involved in settlement negotiations concerning a June 2008 self-report by KU relating to three other standards. Additionally, KU has submitted to the SERC an October 2008 self report of a possible violation relating to one further standard, for which SERC proceedings are in the early stages and therefore unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements in principle with the SERC proceed to the NERC and FERC review before becoming final. While KU believes itself to be in compliance with the mandatory reliability standards, KU cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission. In July 2008, KU filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU, for implementation within approximately eight months, for its large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented the proposed interconnection guidelines to the Kentucky Commission in October 2008. An order is expected by the end of the year.

Note 3 - Financial Instruments

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

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at September 30, 2008 and 2007, had a maturity of less than one year. Energy trading and risk management contracts are valued using Level 2, prices actively quoted for proposed or executed transactions or quoted by brokers or observable inputs other than quoted prices. Collateral related to the energy trading and risk management contracts is categorized as restricted cash.

Effective January 1, 2008, KU adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2. KU has classified the applicable financial assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157. The following table sets forth by level within the fair value hierarchy KU's financial assets that were accounted for at fair value on a recurring basis as of September 30, 2008. Liabilities accounted for at fair value total less than $1 million and use Level 2 measurements. There are no Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Energy trading and risk management contracts cash collateral	1	-	1
Total Assets	$ 1	$ 1	$ 2

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and E.ON U.S. Services employees who are providing services to the utility. The E.ON U.S. Services costs that are allocated to KU are approximately 43% and 42% of E.ON U.S. Services total cost for 2008 and 2007, respectively.

Pension Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ 3	$ 3	$ 9	$ 11
Interest cost	10	10	31	30
Expected return on plan assets	(12)	(12)	(35)	(37)
Amortization of prior service costs	1	1	1	1
Amortization of actuarial loss	-	1	1	3
Benefit cost	$ 2	$ 3	$ 7	$ 8

Other Postretirement Benefits

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	1	2	4	4
Expected return on plan assets	-	-	(1)	(1)
Amortization of transition costs	-	-	1	1
Benefit cost	$ 2	$ 3	$ 5	$ 5

During 2008, KU made contributions to other postretirement benefits plans of $2 million. KU anticipates making further voluntary contributions to the postretirement plan, but no additional contributions to the pension plan in 2008.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each tax period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2005. Statutes of limitations related to 2005 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million, and are based on the expiration of the audit periods as defined in the statutes.

The amount KU recognized as interest accrued related to unrecognized tax benefits was less than $1 million as of September 30, 2008 and December 31, 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48, or through September 30, 2008.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $9 million and $10 million during the three–month periods ended September 30, 2008 and 2007, respectively, and $22 million and $30 million during the nine months ended September 30, 2008 and 2007, respectively, decreasing current federal income taxes.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit. The dismissal is subject to appeal by the plaintiffs; however, it is unclear at this time if they will do so. KU is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 – Short-Term and Long-Term Debt

KU's long-term debt includes $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County Series 2002 A and B, Muhlenberg County Series 2002 A and Mercer County Series 2002 A. These bonds mature in 2032. KU does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the nine months ended September 30, 2008, was 1.90%.

As of September 30, 2008, KU maintained a bilateral line of credit totaling $35 million which matures in June 2012. At that time, there was no balance outstanding under this facility. See Note 9 Subsequent Events.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Subsequent to February 2007, the loan agreement is an unsecured obligation of KU. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At September 30, 2008, KU had no bond proceeds in trust, and at December 31, 2007, KU had $11 million of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At September 30, 2008, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $193 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the nine months ended September 30, 2008 and 2007, the average rate on the auction rate bonds was 4.72% and 3.29%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first nine months of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to AA, and subsequently to A and then to BBB+, by S&P, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A-, and subsequently to BBB+, by S&P due to downgrades of the bond insurer. The ratings of the following bonds were downgraded from Aaa to Aa3 by Moody's and from AAA to AA by S&P due to downgrades of the bond insurer: Mercer County 2000 Series A, Carroll County 2002 Series C, Carroll County 2005 Series A and B, Carroll County 2006 Series A and B, Carroll County 2007 Series A and Trimble County 2007 Series A.

In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. These conversions were completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively.

In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased the bonds from the remarketing agent.

In June 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2004 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, KU purchased the bonds from the remarketing agent.

As of September 30, 2008, KU had repurchased bonds in the amount of $80 million. KU will hold some or all of such repurchased bonds until a later date, at which time KU may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructurings or redemption and refinancing, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$400	$116	$284	2.45%
December 31, 2007	$400	$ 23	$377	4.75%

E.ON U.S. maintains a revolving credit facility totaling $489 million at September 30, 2008 and $150 million at December 31, 2007, to ensure funding availability for the money pool. The revolving facility as of September 30, 2008, is split into separate loans totaling $489 million. One facility, totaling $150 million, is with E.ON North America, Inc., while the remaining loans, totaling $339 million, are with Fidelia; both are affiliated companies. The facility as of December 31, 2007, is with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2008	$489	$469	$20	3.94%
December 31, 2007	$150	$ 62	$88	4.97%

There were no redemptions of long-term debt year-to-date through September 30, 2008.

The issuances of long-term debt year-to-date through September 30, 2008, are summarized below:

($ in millions)

Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	Due to Fidelia	$50	6.16%	Unsecured	2018
2008	Due to Fidelia	$50	5.645%	Unsecured	2018
2008	Due to Fidelia	$75	5.85%	Unsecured	2023

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages.

During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice. A motion to reconsider that ruling was later denied.

In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding, pursuant to the summary judgment in its favor. However, KU retains the right to appeal that summary judgment once the remaining claims in the lawsuit are adjudicated. The parties completed discovery and filed various dispositive motions before the court.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor, including determinations that KU's interpretation of facilities charge fund payments was accurate; that KU is the proportionate owner of NOx allowances allocated to the OMU plant by the government; that OMU's claim for back-up power charges should be capped at a certain price and a denial of OMU's petition to dismiss KU's counterclaim. The summary judgment rulings dismiss a substantial portion of OMU's material claims. Following the trial or other qualifying procedural occurrence, the various summary judgment motions would become appealable. The trial began on October 21, 2008 on the remaining matters before the court, including KU's counterclaim that OMU has failed to operate and maintain its plant in a good and workmanlike manner. The parties retain certain appeal rights and the Company is currently unable to determine the final outcome of this matter.

Construction Program. KU had approximately $224 million of commitments in connection with its construction program at September 30, 2008.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. In September 2008, the EPA issued an order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. The KDAQ has 90 days to respond to the EPA's order. Although the Company does not expect material changes in the permit as a result of the petitions, the EPA has yet to rule on several additional claims. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

In July 2008, a federal appeals court issued a ruling finding statutory and regulatory infirmities in the CAIR and potentially vacating it, and has conducted subsequent proceedings on the matter. During October 2008, the appellate court issued a ruling requesting briefs of the parties regarding whether vacating the CAIR is the applicable relief to be granted. KU, LG&E and industry parties are monitoring these further proceedings. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. KU is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the current invalidation of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and KU's and LG&E's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, KU is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

In February 2008, a federal appellate court issued a decision vacating the CAMR. Certain parties have filed a petition seeking review in the U.S. Supreme Court. Depending on the final outcome of the pending appeal, the CAMR could be superseded by new mercury reduction rules with different or more stringent requirements. Kentucky has subsequently proposed to repeal the corresponding state mercury regulations. At present, KU is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Companies' financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $520 million during the 2008 through 2010 time period for pollution controls, including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is also monitoring relevant regulatory proceedings involving the EPA's advanced notice of proposed rulemaking for regulation of GHGs under the existing authority of the Clean Air Act and proposed rules governing carbon sequestration. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the U.S. Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. The parties are currently proceeding with discovery while concurrently engaged in active settlement negotiations. A $3 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result, which could be in excess of the amount reserved. Also of uncertain potential effect, if any, is the invalidation of the CAIR on the progress or content of settlement discussions. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's

Ghent 2 generating unit. KU and LG&E have complied with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2008	2007	2008	2007
Electric operating revenues from LG&E	$15	$ 7	$44	$33
Purchased power from LG&E	21	18	73	71

Interest Charges

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

KU's intercompany interest expense was as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest on money pool loans	$ 1	$ 2	$ 1	$ 5
Interest on Fidelia loans	14	9	40	24

Other Intercompany Billings

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

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

Intercompany billings to and from KU were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
E.ON U.S. Services billings to KU	$62	$42	$173	$389
KU billings to LG&E	21	11	58	33
LG&E billings to KU	-	2	5	35
KU billings to E.ON U.S. Services	-	22	2	24

In June 2008, LG&E transferred assets related to Trimble County Unit 2 with a net book value of $10 million to KU.

In March, June and September 2008, KU received capital contributions from its common shareholder, E.ON U.S., in the amounts of $25 million, $50 million and $50 million, respectively.

Note 9 – Subsequent Events

On October 17, 2008, KU closed on a new $78 million bilateral line of credit which has a 364 day maturity.

On October 17, 2008, KU issued Carroll County 2008 Series A tax exempt bonds in the amount of $78 million. The new bonds mature on February 1, 2032, and bear interest at a variable rate. The new bonds refinance four existing Series F bonds (Carroll County 2005 Series A and C - $13 million each and the Carroll County 2006 Series A and C - $17 million each), and includes $18 million of new funding. The proceeds from the new funding will be held in escrow pending incurrence of qualifying expenditures.

On October 27, 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $3 million of expenses related to the Hurricane Ike wind storm restoration. An order has been requested by the end of the year.

On October 30, 2008, the Kentucky Commission issued an Order approving the establishment of regulatory assets for the Companies' contributions to the CMRG and KCCS. Rate recovery will be considered in each company's next base rate case.

On November 5, 2008, the ratings of the Mercer County 2000 Series A bonds, Carroll County 2002 Series C bonds, Carroll County 2006 Series B bonds, Carroll County 2007 Series A bonds and Trimble County 2007 Series A bonds were downgraded from Aa3 to A2 by Moody's, due to downgrades of the bond insurer.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three and nine month periods ended September 30, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of September 30, 2008, KU provided electricity to approximately 507,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

In July 2008, KU filed an application with the Kentucky Commission requesting increases in base electric rates of approximately 2.0% or $22 million annually. In conjunction with the filing of the application for a change in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT surcredit and merger surcredit will result in a $16 million increase in revenues annually. A hearing for the Kentucky base rate case is scheduled beginning on January 13, 2009. The requested rates have been suspended until February 5, 2009, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding.

In September 2008, high winds from the remnants of the Hurricane Ike wind storm passed through KU's service territory causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, $3 million of expenses related to the storm restoration. An order has been requested by the end of the year.

Environmental Matters

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Three Months Ended September 30, 2008, Compared to Three Months Ended September 30, 2007

Net Income

Net income for the three months ended September 30, 2008, decreased $7 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($34 million), increased interest expense ($4 million) and increased income taxes ($1 million), partially offset by increased electric revenues ($26 million) and other income ($6 million).

Revenues

Revenues increased $26 million in the three months ended September 30, 2008, primarily due to:

- Increased fuel costs billed to customers through the FAC ($23 million) due to increased fuel prices
- Increased wholesale sales ($12 million) due to increased intercompany volumes, increased wholesale market pricing and increased volume due to decreased native load
- Increased ECR surcharge ($8 million) due to increased recoverable capital spending
- Increased demand charges ($5 million) due to higher peak load
- Decreased sales volumes to native load ($24 million) due in part to a 19% decrease in cooling degree days and outages related to damage from the Hurricane Ike wind storm

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $9 million in the three months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($14 million)
- Decreased generation ($5 million) due to decreased native load

Power purchased expense increased $15 million in the three months ended September 30, 2008, primarily due to:

- Increased pricing and volumes on purchases for native load ($9 million) due to increased coal and gas costs and unit outages
- Increased intercompany volumes purchased ($4 million) due to lower native load requirements for LG&E as a result of milder weather, lower industrial sales and power outages from the Hurricane Ike wind storm, resulting in the purchase of excess power from LG&E
- Increased demand payments ($1 million) due to a new capacity contract

Other operation and maintenance expense increased $5 million in the three months ended September 30, 2008, due to increased maintenance expense ($3 million) and increased other operation expense ($2 million).

Maintenance expense increased $3 million in the three months ended September 30, 2008, primarily due to:

- Increased electric maintenance ($1 million) due to higher cost of outside contractors and materials
- Increased distribution maintenance ($1 million) due to the Hurricane Ike wind storm
- Increased cost for other indirect maintenance ($1 million) due to increased software maintenance lease cost

Other operation expense increased $2 million in the three months ended September 30, 2008, primarily due to increased outside services due to increased legal expenses as a result of ongoing litigation, mainly with OMU.

Interest expense, including interest expense to affiliated companies, increased $4 million in the three months ended September 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.8	3.1
Reduction of income tax reserve	(0.8)	(0.7)
Amortization of investment tax credits	(0.2)	(0.1)
Dividends received deduction related to EEI Investment	(3.9)	(2.5)
Other differences	(2.3)	(8.3)
Effective income tax rate	30.6%	26.5%

The effective income tax rate increased for the three months ended September 30, 2008, compared to the three months ended September 30, 2007 due primarily to the tax benefits resulting from income tax estimates recorded in 2006 being adjusted to the actual income tax return filed, which is included in the other differences, in the three months ended September 30, 2007. This was partially offset by decreased state income taxes net of federal benefit due to an increase in state coal credits and an increase in tax benefits associated with increased dividends received from EEI.

Nine Months Ended September 30, 2008 Compared to
Nine Months Ended September 30, 2007

Net Income

Net income for the nine months ended September 30, 2008, decreased $13 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($95 million) and increased interest expense ($11 million), partially offset by increased electric revenues ($76 million), lower income taxes ($9 million) and higher other income ($8 million).

Revenues

Revenues in the nine months ended September 30, 2008, increased $76 million primarily due to:

- Increased fuel costs billed to customers through the FAC ($85 million) due to increased fuel prices
- Increased wholesale sales ($19 million) due to increased wholesale market pricing and increased volume due to decreased native load
- Decreased sales volumes delivered to native load ($28 million) due in part to a 24% decrease in cooling degree days

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $26 million in the nine months ended September 30, 2008, primarily due to:

- Increased commodity and transportation costs for coal and natural gas ($21 million)
- Increased generation ($5 million) due to increased wholesale sales

Power purchased expense increased $35 million in the nine months ended September 30, 2008, primarily due to:

- Increased pricing and volumes on purchases for native load ($28 million) due to increased coal and gas costs and unit outages
- Increased intercompany costs ($4 million) due to higher fuel costs
- Increased demand payments ($2 million) due to a capacity contract
- Increased wholesale purchase cost ($1 million) due to increased volumes and prices

Other operation and maintenance expense increased $24 million in the nine months ended September 30, 2008, due to increased maintenance expense ($13 million) and increased other operation expense ($11 million).

Maintenance expense increased $13 million in the nine months ended September 30, 2008, primarily due to:

- Increased electric and boiler maintenance expense ($5 million) due to higher cost of outside contractors and materials
- Increased overhead conductor and devices maintenance expense ($4 million) due to the Hurricane Ike wind storm and other storm restoration earlier in the year
- Increased steam maintenance expense ($2 million) due to high energy piping inspections and repairs
- Increased cost for other indirect maintenance ($2 million) due to increased software maintenance lease cost

Other operation expense increased $11 million in the nine months ended September 30, 2008, primarily due to:

- Increased generation expense due to increased unit outages and increased transmission expense to cover native load demand ($4 million)
- Increased outside services ($3 million) due to increased legal expenses as a result of ongoing litigation, mainly with OMU
- Increased expense for uncollectible accounts ($2 million)
- Increased cost of consumables ($1 million) primarily due to increased contract pricing
- Increased distribution expense ($1 million) due to the Hurricane Ike wind storm and other storm restoration earlier in the year

Interest expense, including interest expense to affiliated companies, increased $11 million in the nine months ended September 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.8	3.3
Reduction of income tax reserve	(0.3)	(0.3)
Amortization of investment tax credits	(0.1)	(0.2)
Dividends received deduction related to EEI investment	(4.3)	(2.7)
Other differences	(2.7)	(3.5)
Effective income tax rate	30.4%	31.6%

The effective income tax rate decreased for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. State income taxes net of federal benefit decreased due to an increase in state coal credits. Also contributing to the lower effective rate were the tax benefits associated with increased dividends received from EEI.

Liquidity and Capital Resources

KU uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent mainly to fund construction of plant and equipment. KU currently has a working capital deficiency of $97 million, primarily due to short-term debt from affiliates associated with the repurchase of certain of its tax-exempt bonds totaling $80 million. These bonds are being held until they can be refinanced or restructured. See Notes 6 and 9 of Notes to Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

KU and LG&E sponsor pension and postretirement benefit plans for their employees. The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The market value of the combined investments within the plans declined by approximately 18% during the nine months ended September 30, 2008 due to the recent volatility in the capital markets. The benefit plan assets and obligations of KU and LG&E are remeasured annually using a December 31 measurement date. KU and LG&E expect that investment losses will result in an increase to the plans' unfunded status upon actuarial revaluation of the plans. Changes in the value of plan assets will not impact the income statement for 2008; however, reduced benefit plan assets will result in increased benefit costs in future years and may increase the amount, and accelerate the timing of, required future funding contributions. Such increases could be material to KU and LG&E beginning in 2009, however, the amount of such contributions cannot be determined at this time.

Operating Activities

Cash provided by operations was $243 million and $209 million for the nine months ended September 30, 2008 and 2007, respectively.

The 2008 increase of $34 million was primarily the result of increases in cash due to changes in:

- Accounts payable ($37 million)
- FAC receivable, net ($26 million)
- Pension funding ($11 million) due to higher pension funding in 2007
- Other current liabilities ($7 million)
- Accounts receivable ($5 million)
- Other ($1 million)

These increases were partially offset by cash provided by changes in:

- Materials and supplies ($34 million)
- Earnings, net of non-cash items ($10 million)
- Prepayments and other current assets ($9 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $554 million and $512 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash used for investing activities increased $25 million in the nine months ended September 30, 2008, compared to 2007, primarily due to increased capital expenditures of $42 million and an asset transferred from LG&E of $10 million. The increase in restricted cash of $27 million represents the escrowed proceeds of the pollution control bonds issued, which were disbursed as qualifying costs were incurred.

Financing Activities

Net cash inflows from financing activities were $313 million and $315 million in the nine months ended September 30, 2008 and 2007, respectively. Net cash provided by financing activities decreased $2 million in the nine months ended September 30, 2008 compared to 2007, due to decreased long-term borrowings from an affiliated company of $103 million, the issuance of pollution control bonds of $81 million in 2007 and the reacquisition of bonds in the amount of $80 million, partially offset by the retirement of first mortgage bonds of $107 million in 2007, increased short-term borrowings from an affiliated company of $85 million and increased infusions from E.ON U.S. of $70 million.

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

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million, on-going construction related to generation assets totaling approximately $360 million and distribution assets totaling approximately $230 million and other projects including information technology of approximately $25 million.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

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

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of September 30, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

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

Controls and Procedures

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

KU is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, as discussed above, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2007. Management's assessment was not subject to audit by the Company's independent accounting firm.

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of KU's Financial Statements and Additional Information for the year ended December 31, 2007 (the "Annual Report"): Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in KU's Annual Report have not materially changed.

Other

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

2008 – 2nd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

As of June 30, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	Kentucky Utilities Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
kWh	Kilowatt Hours
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
mWh	Megawatt Hours
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
OPERATING REVENUES:				
Total operating revenues	$ 316	$ 301	$ 668	$ 618
OPERATING EXPENSES:				
Fuel for electric generation	110	107	233	217
Power purchased	54	45	110	90
Other operation and maintenance expenses	75	63	141	121
Depreciation and amortization	31	29	63	58
Total operating expenses	270	244	547	486
OPERATING INCOME	46	57	121	132
Other expense (income) – net	(9)	(9)	(18)	(15)
Interest expense (Notes 3, 5 and 6)	3	3	7	7
Interest expense to affiliated companies (Note 8)	13	10	26	18
INCOME BEFORE INCOME TAXES	39	53	106	122
Federal and state income taxes (Note 5)	11	18	32	42
NET INCOME	$ 28	$ 35	$ 74	$ 80

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

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Balance at beginning of period	$1,083	$ 915	$1,037	$ 870
Net income	28	35	74	80
Balance at end of period	$1,111	$ 950	$1,111	$ 950

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ -	$ -
Restricted cash	-	11
Accounts receivable – less reserves of $3 million and $2 million as of June 30, 2008 and December 31, 2007, respectively	161	172
Accounts receivable from affiliated companies (Note 8)	-	17
Materials and supplies:		
Fuel (predominantly coal)	56	42
Other materials and supplies	35	34
Prepayments and other current assets	7	12
Total current assets	259	288
Other property and investments	30	29
Utility plant:		
At original cost	5,295	4,939
Less: reserve for depreciation	1,674	1,622
Net utility plant	3,621	3,317
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	28	28
Other	88	86
Cash surrender value of key man life insurance	37	37
Other assets	11	11
Total deferred debits and other assets	164	162
Total assets	$ 4,074	$ 3,796

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 33	$ 33
Notes payable to affiliated companies (Notes 6 and 8)	75	23
Accounts payable	173	160
Accounts payable to affiliated companies (Note 8)	50	48
Customer deposits	20	20
Other current liabilities	25	28
Total current liabilities	376	312
Long-term debt:		
Long-term debt (Note 6)	270	300
Long-term debt to affiliated company (Notes 6 and 8)	1,006	931
Total long-term debt	1,276	1,231
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	279	285
Accumulated provision for pensions and related benefits (Note 4)	87	83
Investment tax credit (Note 5)	68	55
Asset retirement obligation	31	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	318	310
Deferred income taxes - net	19	22
Other	15	10
Other liabilities	21	23
Total deferred credits and other liabilities	838	818
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	165	90
Retained earnings	1,090	1,016
Undistributed subsidiary earnings	21	21
Total retained earnings	1,111	1,037
Total common equity	1,584	1,435
Total liabilities and equity	$ 4,074	$ 3,796

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 74	$ 80
Items not requiring cash currently:		
Depreciation and amortization	63	58
Deferred income taxes – net	(9)	-
Investment tax credit – net	13	20
Other	(6)	(8)
Changes in current assets and liabilities:		
Accounts receivable	28	8
Material and supplies	(15)	(3)
Accounts payable	24	40
Prepayments and other current assets	4	(16)
Other current liabilities	(3)	(4)
Pension funding	-	(13)
Fuel adjustment clause receivable, net	6	(9)
Other	8	(6)
Net cash provided by operating activities	187	147
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(360)	(319)
Asset transferred from affiliate (Note 8)	(10)	-
Change in restricted cash	11	(23)
Net cash used for investing activities	(359)	(342)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds	-	(107)
Issuance of pollution control bonds	-	81
Additional paid-in capital	75	-
Long-term borrowings from affiliated company (Note 6)	75	178
Short-term borrowings from affiliated company - net (Note 6)	52	43
Reacquired bonds	(30)	-
Net cash provided by financing activities	172	195
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 6

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

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives, AROs and pension assets, as required, are now provided.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	June 30, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	11	10
MISO exit	19	20
FAC	11	17
ECR	18	11
Other	4	4
Subtotal	88	86
Pension and postretirement benefits	28	28
Total regulatory assets	$ 116	$ 114
Accumulated cost of removal of utility plant	$ 318	$ 310
Deferred income taxes – net	19	22
Other	15	10
Total regulatory liabilities	$ 352	$ 342

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next base rate case.

MISO Exit. KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next base rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in June 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under-collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008, customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU has agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kWh from the factor in effect for the April 2007 through March 2008 period.

ECR. In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of KU's environmental surcharge. An order is anticipated by the end of the year.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

Base Rate Case. In July 2008, KU filed an application with the Kentucky Commission for an increase in base rates. See Note 9, Subsequent Events.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by KU and LG&E, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, KU, LG&E and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. KU, LG&E and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. KU and LG&E filed a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal, which motion has been opposed by the counter-parties.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. All rights of way for one transmission line have been acquired. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line, a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. KU and LG&E have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this transmission line are also pending in neighboring Hardin County where three landowners have challenged KU's and LG&E's right to easements, on the same grounds cited by the Meade County court and other purported basis. In May and June 2008, the Hardin County Circuit Court issued rulings denying the dismissal motions, finding that KU and LG&E had established their condemnation rights and granting judgment in favor of KU and LG&E. During July 2008, the landowners filed subsequent motions in Hardin Circuit Court seeking to further challenge KU's and LG&E's condemnation right by asserting deficiencies in the air permit relating to the proposed TC2 generation unit. KU and LG&E continue to engage in settlement negotiations with the property owners. In a separate, further proceeding, certain landowners have filed a lawsuit in federal court against the U.S. Army, KU and LG&E alleging that the U.S. Army failed to comply with Section 106 of the National Historic Preservation Act in granting an easement across Fort Knox. KU and LG&E are working with the U.S. Army in defending against the claims.

Merger Surcredit. In December 2007, KU submitted its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008, to the Kentucky Commission. In June 2008, the Kentucky Commission issued an Order approving a settlement which provides for continuation of the merger surcredit for the period July 2008 through January 2009, which surcredits will terminate in connection with any new base rates to go into effect after January 2009. See Note 9, Subsequent Events.

VDT. In accordance with the Kentucky Commission's Order dated March 24, 2006, the VDT will terminate in the first billing month after the filing for a change in base rates. As a result of KU's filing of its application with the Kentucky Commission for an increase in base rates in July 2008, the VDT terminated with the first billing cycle in August 2008, subject to a final balancing adjustment in September 2008.

DSM. In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. The SERC has assessed KU's compliance with certain existing mitigation plans relating to two standards resulting from a prior RRO's audit of various reliability standards, and the parties agreed in principle to a penalty of less than $1 million in June 2008. While KU believes itself to be in substantial compliance with the mandatory reliability standards, KU cannot predict the outcome of other analyses, including on-going SERC reviews relating to six additional standards, which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission, the timing of which cannot currently be determined. A revised procedural schedule was issued in June 2008, but a hearing is not currently scheduled. In July 2008, KU filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. The Kentucky Commission has not yet ruled on the request. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, KU and LG&E received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU, for implementation within approximately eight months, for its large commercial and industrial customers.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case are to present the proposed interconnection guidelines to the Kentucky Commission in September 2008.

Note 3 - Financial Instruments

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

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at June 30, 2007, had a maturity of less than one year. There were no contracts outstanding at June 30, 2008. Energy trading and risk management contracts are valued using Level 2, prices actively quoted for proposed or executed transactions or quoted by brokers or observable inputs other than quoted prices.

Effective January 1, 2008, KU adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
(in millions)								
Service cost	$ 1	$ 1	$ -	$ -	$ 3	$ 3	$ 1	$ 1
Interest cost	4	4	1	1	9	10	2	2
Expected return on plan assets	(4)	(5)	-	(1)	(10)	(12)	-	(1)
Amortization of prior service costs	-	1	-	-	-	1	-	-
Amortization of actuarial loss	-	-	-	-	-	1	-	-
Amortization of transitional obligation	-	-	-	1	-	-	-	1
Benefit cost	$ 1	$ 1	$ 1	$ 1	$ 2	$ 3	$ 3	$ 3

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheets and in operating expense on the income statements. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to KU.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, KU made contributions to other postretirement benefit plans of approximately $1 million. KU anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law. See Note 9, Subsequent Events.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, calculates its separate income tax for each tax period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the amount of unrecognized tax benefits would reduce the effective income tax rate. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense was less than $1 million at June 30, 2008 and December 31, 2007. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48, or through June 30, 2008.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $10 million in each of the three-month periods ended June 30, 2008 and 2007, respectively, and $13 million and $20 million during the six months ended June 30, 2008 and 2007, respectively, decreasing current federal income taxes.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. KU is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 – Short-Term and Long-Term Debt

KU's long-term debt includes $63 million classified as current liabilities ($30 million of which are currently being held by the Company as discussed below) because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County Series 2002 A and B, Muhlenberg County Series 2002 A and Mercer County Series 2002 A. These bonds mature in 2032. The repurchased bonds include the Carroll County 2006 Series C and Mercer County 2000 Series A bonds. KU does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the six months ended June 30, 2008, was 2.05%.

KU maintains a bilateral line of credit totaling $35 million which matures in June 2012. As of June 30, 2008, there was no balance outstanding under this facility.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At June 30, 2008, KU had no bond proceeds in trust, and at December 31, 2007, KU had $11 million of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At June 30, 2008, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $243 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the six months ended June 30, 2008 and 2007, the average rate on the auction rate bonds was 4.70% and 3.64%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first six months of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to AA, and subsequently to A and then to BBB+, by S&P, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A-, and subsequently to BBB+, by S&P due to downgrades of the bond insurer. The ratings of the following bonds were downgraded from Aaa to Aa3 by Moody's and from AAA to AA by S&P due to downgrades of the bond insurer: Mercer County 2000 Series A, Carroll County 2002 Series C, Carroll County 2005 Series A and B, Carroll County 2006 Series A and B, Carroll County 2007 Series A and Trimble County 2007 Series A.

In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. These conversions were completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively.

In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased the bonds from the remarketing agent.

In June 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2004 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, KU purchased the bonds from the remarketing agent. See Note 9, Subsequent Events.

As of June 30, 2008, KU had repurchased bonds in the amount of $30 million. KU will hold some or all of such repurchased bonds until a later date, at which time KU may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructurings or redemption and refinancing, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2008	$400	$ 75	$325	2.43%
December 31, 2007	$400	$ 23	$377	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at June 30, 2008 and $150 million at December 31, 2007, to ensure funding availability for the money pool. The revolving facility as of June 30, 2008, is split into two separate loans totaling $311 million. One facility, totaling $150 million, is with E.ON North America, Inc., while the second, totaling $161 million, is with Fidelia; both are affiliated companies. The facility as of December 31, 2007, is with E.ON North America, Inc. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2008	$311	$220	$ 91	3.17%
December 31, 2007	$150	$ 62	$ 88	4.97%

There were no redemptions of long-term debt year-to-date through June 30, 2008.

The issuance of long-term debt year-to-date through June 30, 2008, is summarized below:

($ in millions)

Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	Due to Fidelia	$75	5.85%	Unsecured	2023

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The parties have generally completed discovery proceedings and have filed various dispositive motions which are before the court. Among other matters before the court on summary judgment and potentially subject to ruling before trial is a dispute involving differences in the calculation of approximately $16 million in facilities charges under the OMU agreement. The parties are conducting certain settlement discussions, in parallel, including potential mediation. A trial date has been set for October 2008. The Company is currently unable to determine the final outcome of this matter.

Construction Program. KU had approximately $280 million of commitments in connection with its construction program at June 30, 2008.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

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

In July 2008, a federal appeals court issued a ruling vacating the CAIR, which decision may be subject to rehearing or other subsequent proceedings. KU, LG&E and industry parties are monitoring these further proceedings. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. KU is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the current invalidation of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and KU's and LG&E's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, KU is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

In February 2008, a federal appellate court issued a decision vacating the CAMR. The parties are currently evaluating the possibility of seeking review in the U.S. Supreme Court. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. Kentucky has subsequently proposed to repeal the corresponding state mercury regulations. At present, KU and LG&E are not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Companies' financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $880 million during the 2008 through 2010 time period for pollution controls, including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the U.S. Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. The parties are currently proceeding with discovery while concurrently engaged in active settlement negotiations. A $3 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result, which could be in excess of the amount reserved. Also of uncertain potential effect, if any, is the invalidation of the CAIR on the progress or content of settlement discussions. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2008	2007	2008	2007
Electric operating revenues from LG&E	$14	$ 8	$29	$26
Purchased power from LG&E	25	23	51	53

Interest Charges

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

KU's intercompany interest expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2008	2007	2008	2007
Interest on money pool loans	$ -	$ 2	$ 1	$ 3
Interest on Fidelia loans	13	8	25	15

Other Intercompany Billings

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

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

Intercompany billings to and from KU were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2008	2007	2008	2007
E.ON U.S. Services billings to KU	$ 72	$210	$111	$380
KU billings to LG&E	14	8	37	22
LG&E billings to KU	4	23	5	33
KU billings to E.ON U.S. Services	1	33	2	35

In June 2008, LG&E transferred assets related to Trimble County Unit 2 with a net book value of $10 million to KU.

In March and June 2008, KU received capital contributions from its common shareholder, E.ON U.S., in the amounts of $25 million and $50 million, respectively.

Note 9 – Subsequent Events

On July 3, 2008, KU made contributions to other postretirement benefit plans of approximately $1 million.

On July 16, 2008, the Carroll County 2004 Series A bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, KU purchased the bonds from the remarketing agent.

On July 23, 2008, a cooling tower associated with KU's 510 Mw Ghent 2 generating unit suffered a partial structural collapse rendering such unit generally inoperable for an estimated three-week period. KU is analyzing various options and the costs thereof regarding replacement power for the temporary and permanent repair of such facilities, as well as effects on excess or wholesale power sales and purchases.

On July 25, 2008, KU borrowed $50 million from Fidelia for a period of 10 years at a fixed rate of 6.16%. The loan is unsecured.

On July 29, 2008, KU filed an application with the Kentucky Commission for an increase in base rates of approximately 2.0% or $22 million annually. KU has requested the increase based on the twelve month test year ended April 30, 2008. KU requested new base rates to become effective on and after September 1, 2008. In conjunction with filing of the application for a change in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. Under Kentucky Commission practice, new rates will most likely be suspended an additional five months with an effective date on and after February 1, 2009, subject to refund if an order is not issued by such time. The rate review proceeding, which will likely involve opposition filings by intervenors or other third-parties, should be completed in early 2009, subject to a number of factors.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three and six month periods ended June 30, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

In July 2008, KU filed an application with the Kentucky Commission requesting increases in base electric rates of approximately 2.0% or $22 million annually. In conjunction with filing of the application for a change in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT terminated in August 2008, and the merger surcredit will terminate upon the implementation of new base rates. The termination of the VDT and merger surcredit will result in a $16 million increase in revenues annually. These proceedings should be completed in early 2009.

Environmental Matters

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Three Months Ended June 30, 2008, Compared to Three Months Ended June 30, 2007

Net Income

Net income for the three months ended June 30, 2008, decreased $7 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($26 million) and increased interest expense ($3 million), partially offset by increased electric revenues ($15 million) and lower income taxes ($7 million).

Revenues

Revenues increased $15 million in the three months ended June 30, 2008, primarily due to:
- Increased ECR surcharge ($10 million) due to increased recoverable capital spending
- Increased wholesale sales ($9 million) due to increased volumes and increased wholesale market pricing
- Increased fuel costs ($7 million) billed to customers through the FAC due to increased fuel prices
- Increased demand side management cost recovery ($2 million) due to additional conservation programs
- Decreased sales volumes to native load ($13 million) due in part to a 31% decrease in cooling degree days

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $3 million in the three months ended June 30, 2008, primarily due to increased contract and spot market pricing for coal and natural gas due to increased transportation costs.

Power purchased expense increased $9 million in the three months ended June 30, 2008, primarily due to:
- Increased pricing on purchases ($7 million) and higher demand payments ($2 million)
- Increased volumes purchased ($2 million) related to intercompany purchases
- Decreased volumes purchased for native load ($2 million) due to increased internal generation

Other operation and maintenance expense increased $12 million in the three months ended June 30, 2008, primarily due to increased other operation expense ($8 million) and increased maintenance expense ($4 million).

Other operation expense increased $8 million in the three months ended June 30, 2008, primarily due to:
- Increased demand side management conservation expense ($2 million) due to additional conservation programs
- Increased contract labor and material costs for outages ($2 million)
- Increased outside services ($1 million) due to higher outside counsel expense
- Increased generation expense ($1 million) due to increased outages

- Increased 401k, medical insurance and FICA expense ($1 million)
- Increased research and development expense ($1 million)

Maintenance expense increased $4 million in the three months ended June 30, 2008, primarily due to:

- Increased electric and boiler maintenance ($3 million) due to higher cost of outside contractors and materials
- Increased steam plant maintenance ($1 million) due to increased generation and consumables prices

Interest expense, including interest expense to affiliated companies, increased $3 million in the three months ended June 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.3	3.9
Amortization of investment tax credits	(0.3)	(0.2)
EEI dividend	(6.2)	(3.2)
Other differences	(2.6)	(1.5)
Effective income tax rate	28.2%	34.0%

The effective income tax rate decreased for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. State income taxes net of federal benefit decreased due to an increase in state coal credits. Also contributing to the lower effective rate were the tax benefits associated with increased dividends received from EEI.

Six Months Ended June 30, 2008 Compared to
Six Months Ended June 30, 2007

Net Income

Net income for the six months ended June 30, 2008, decreased $6 million compared to the same period in 2007. The decrease was primarily the result of increased operating expense ($61 million) and increased interest expense ($8 million), partially offset by increased electric revenues ($50 million), lower income taxes ($10 million) and higher other income ($3 million).

Revenues

Revenues in the six months ended June 30, 2008, increased $50 million primarily due to:

- Increased ECR surcharge ($24 million) due to increased recoverable capital spending
- Increased fuel costs ($22 million) billed to customers through FAC due to increased fuel prices
- Increased wholesale sales ($7 million) due to increased wholesale market pricing
- Increased demand side management cost recovery ($2 million) due to additional conservation programs
- Decreased sales volumes delivered to native load ($5 million) resulting in part from a 34% decrease in cooling degree days

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $16 million in the six months ended June 30, 2008, primarily due to:

- Increased generation ($9 million) due to increased wholesale sales
- Increased contract and spot market pricing for coal and natural gas ($7 million) due to increased transportation costs

Power purchased expense increased $20 million in the six months ended June 30, 2008, primarily due to:

- Increased cost per mWh of purchases ($16 million) due to increased purchases and increased fuel prices
- Increased costs ($4 million) due to intercompany purchases

Other operation and maintenance expense increased $20 million in the six months ended June 30, 2008, primarily due to increased other operation expense ($7 million) and increased maintenance expense ($13 million).

Other operation expense increased $7 million in the six months ended June 30, 2008, primarily due to:

- Increased generation and transmission expense ($3 million) due to increased outages and transmission expense for native load
- Increased demand side management conservation expense ($2 million) due to additional conservation programs
- Increased outside services ($1 million) due to higher outside counsel expense
- Increased expense for uncollectible accounts ($1 million)

Maintenance expense increased $13 million in the six months ended June 30, 2008, primarily due to:

- Increased electric and boiler maintenance expense ($4 million) due to higher cost of outside contractors and materials
- Increased distribution expense ($3 million) due to increased storm restoration
- Increased overhead conductor and devices maintenance expense ($3 million)
- Increased overhead line and vegetation management expense ($2 million) due to increased storm restoration
- Increased maintenance supervision and engineering expense ($1 million) due to engineering consulting and testing costs for new projects in 2008

Interest expense, including interest expense to affiliated companies, increased $8 million in the six months ended June 30, 2008, primarily due to increased interest expense to affiliated companies due to increased borrowing.

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.8	3.8
Amortization of investment tax credits	(0.2)	(0.2)
EEI dividend	(4.6)	(2.8)
Other differences	(2.8)	(1.4)
Effective income tax rate	30.2%	34.4%

The effective income tax rate decreased for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. State income taxes net of federal benefit decreased due to an increase in state coal credits. Also contributing to the lower effective rate were the tax benefits associated with increased dividends received from EEI.

Liquidity and Capital Resources

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $187 million and $147 million for the six months ended June 30, 2008 and 2007, respectively.

The 2008 increase of $40 million was primarily the result of increases in cash due to changes in:

- Prepayments and other current assets ($20 million) due to income tax deposits exceeding the liabilities accrued
- Accounts receivable ($20 million)
- FAC receivable, net ($15 million)
- Other ($14 million)
- Pension funding ($13 million) due to higher pension funding in 2007
- Other current liabilities ($1 million)

These increases were partially offset by cash provided by changes in:

- Accounts payable ($16 million)
- Earnings, net of non-cash items ($15 million)
- Materials and supplies ($12 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $360 million and $319 million in the six months ended June 30, 2008 and 2007, respectively. Net cash used for investing activities increased $17 million in the six months ended June 30, 2008, compared to 2007, primarily due to increased capital expenditures of $41 million and an asset transferred from an affiliate of $10 million. The change in restricted cash increased $34 million and represents the escrowed proceeds of the Pollution Control Bonds issued which were disbursed as qualifying costs were incurred.

Financing Activities

Net cash inflows from financing activities were $172 million and $195 million in the six months ended June 30, 2008 and 2007, respectively. Net cash provided by financing activities decreased $23 million in the six months ended June 30, 2008 compared to 2007, due to decreased long-term borrowings from affiliated company of $103 million, the issuance of pollution control bonds of $81 million in 2007 and the reacquisition of bonds in the amount of $30 million, partially offset by the retirement of first mortgage bonds of $107 million in 2007, increased additional paid-in capital of $75 million and increased short-term borrowings from affiliated company of $9 million.

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

Future Capital Requirements

KU expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

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

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of June 30, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

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

Controls and Procedures

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

KU is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of KU's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in KU's Annual Report have not materially changed.

Other

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

2008 – 1st Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

As of March 31, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
kWh	Kilowatt Hours
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
OPERATING REVENUES:		
Total operating revenues	$ 352	$ 316
OPERATING EXPENSES:		
Fuel for electric generation	123	109
Power purchased	56	45
Other operation and maintenance expenses	66	59
Depreciation and amortization	32	28
Total operating expenses	277	241
OPERATING INCOME	75	75
Other expense (income) - net	(9)	(6)
Interest expense (Notes 3 and 6)	4	5
Interest expense to affiliated companies (Note 8)	12	7
INCOME BEFORE INCOME TAXES	68	69
Federal and state income taxes (Note 5)	22	24
NET INCOME	$ 46	$ 45

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

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance at beginning of period	$1,037	$ 870
Net income	46	45
Balance at end of period	$1,083	$ 915

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ -	$ -
Restricted cash	6	11
Accounts receivable – less reserves of $2 million as of March 31, 2008 and December 31, 2007	162	172
Accounts receivable from affiliated companies (Note 8)	1	17
Materials and supplies:		
Fuel (predominantly coal)	37	42
Other materials and supplies	34	34
Prepayments and other current assets	4	12
Total current assets	244	288
Other property and investments	29	29
Utility plant:		
At original cost	5,100	4,939
Less: reserve for depreciation	1,648	1,622
Net utility plant	3,452	3,317
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	28	28
Other	78	86
Cash surrender value of key man life insurance	37	37
Other assets	12	11
Total deferred debits and other assets	155	162
Total assets	3,880	$ 3,796

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 33	$ 33
Notes payable to affiliated companies (Notes 6 and 8)	50	23
Accounts payable	146	160
Accounts payable to affiliated companies (Note 8)	29	48
Customer deposits	20	20
Accrued income taxes	19	-
Other current liabilities	22	28
Total current liabilities	319	312
Long-term debt:		
Long-term debt (Note 6)	300	300
Long-term debt to affiliated company (Notes 6 and 8)	931	931
Total long-term debt	1,231	1,231
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	281	285
Accumulated provision for pensions and related benefits (Note 4)	84	83
Investment tax credit (Note 5)	58	55
Asset retirement obligation	31	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	314	310
Deferred income taxes - net	21	22
Other	12	10
Other liabilities	23	23
Total deferred credits and other liabilities	824	818
Common equity:		
Common stock, without par value – Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	115	90
Retained earnings	1,062	1,016
Undistributed subsidiary earnings	21	21
Total retained earnings	1,083	1,037
Total common equity	1,506	1,435
Total liabilities and equity	$ 3,880	$ 3,796

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46	$ 45
Items not requiring cash currently:		
Depreciation and amortization	32	28
Investment tax credit	3	10
Other	(4)	(3)
Changes in current assets and liabilities:		
Accounts receivable	26	33
Material and supplies	5	10
Accounts payable	(10)	(2)
Accrued income taxes	19	7
Prepayments and other current assets	8	7
Other current liabilities	(7)	(1)
Pension and postretirement funding	1	(13)
Fuel adjustment clause receivable, net	11	(6)
Other	(3)	(2)
Net cash provided by operating activities	127	113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(184)	(125)
Change in restricted cash	5	2
Net cash used for investing activities	(179)	(123)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 6)	-	(107)
Issuance of pollution control bonds	-	54
Additional paid-in capital	25	-
Long-term borrowings from affiliated company (Note 8)	-	128
Short-term borrowings from affiliated company (Note 6)	291	211
Repayment of short-term borrowings from affiliated company (Note 6)	(264)	(276)
Net cash provided by in financing activities	52	10
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 6

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets, as required, in 2008.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	March 31, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	10	10
MISO exit	19	20
FAC	5	17
ECR	14	11
Other	5	4
Subtotal	78	86
Pension and postretirement benefits	28	28
Total regulatory assets	$ 106	$ 114
Accumulated cost of removal of utility plant	$ 314	$ 310
Deferred income taxes – net	21	22
Other	12	10
Total regulatory liabilities	$ 347	$ 342

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

MISO Exit. KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. A public hearing was held in March 2008. An order is anticipated in the third quarter of 2008.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. A public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over-or-under collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008, customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application. The recommended change, which KU has agreed to, would result in a decrease of 0.482 cents/kWh and will become effective beginning in June 2008 pending Virginia Commission approval. A public hearing was held in May 2008, and an order is anticipated in the second quarter of 2008.

ECR. In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. All parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review period, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by KU and LG&E, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005, and was never appealed.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, KU, LG&E and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. KU, LG&E and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. KU and LG&E will file a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line (all rights of way for the other line have been acquired), a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. KU and LG&E have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this same transmission line are also pending in neighboring Hardin County, and three landowners there have now sought dismissal of certain of those proceedings in Hardin County, on the same grounds cited by the Meade County court. KU and LG&E have opposed those efforts to dismiss, and are awaiting ruling by the Hardin County Circuit Court.

Merger Surcredit. In December 2007, KU submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission issued a procedural schedule for this proceeding in March 2008, with data discovery to be completed in May 2008. A public hearing is scheduled in May 2008, and an order is expected by the end of the second quarter of 2008.

DSM. In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. The SERC is currently assessing KU's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards, and KU and SERC are in discussions regarding potential settlement, further mitigation steps or other resolution actions regarding these items. While KU believes itself to be in substantial compliance with the mandatory reliability standards, KU cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, KU and LG&E received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU, for implementation within approximately eight months, for its large commercial and industrial customers.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Note 3 - Financial Instruments

Effective January 1, 2008, KU adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2.

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

The table below summarizes KU's energy trading and risk management activities for the three months ended March 31, 2007:

(in millions)	
Fair value of contracts at beginning of period, net asset	$ 1
Unrealized gains and losses recognized at contract inception during the period	-
Realized gains and losses recognized during the period	-
Changes in fair values attributable to changes in valuation techniques and assumptions	(2)
Other unrealized gains and losses and changes in fair values	-
Fair value of contracts at end of period, net (liability) asset	$ (1)

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007, had a maturity of less than one year. There were no contracts outstanding at March 31, 2008. All amounts for 2008 are less than $1 million. Energy trading and risk management contracts are valued using Level 1, prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	2008	2007	2008	2007
Service cost	$ 1	$ 2	$ -	$ 1
Interest cost	5	6	1	1
Expected return on plan assets	(5)	(7)	-	-
Amortization of actuarial loss	-	1	-	-
Benefit cost year-to-date	$ 1	$ 2	$ 1	$ 2

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to KU.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, KU made contributions to other postretirement benefit plans of approximately $1 million. KU anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate.

Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2008 and March 31, 2007. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48, or through March 31, 2008.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $3 million and $10 million during the three months ended March 31, 2008 and March 31, 2007, respectively, decreasing current federal income taxes.

In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. KU is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 – Short-Term and Long-Term Debt

KU's long-term debt includes $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County Series 2002 A and B, Muhlenberg County Series 2002 A and Mercer County Series 2002 A. These bonds mature in 2032. KU does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the three months ended March 31, 2008, was 2.30%.

During June 2007, KU entered into a short-term bilateral line of credit facility totaling $35 million. There was no outstanding balance under this facility at March 31, 2008. During the third quarter of 2007, KU extended the maturity date of this facility through June 2012.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At March 31, 2008 and December 31, 2007, KU had $6 million and $11 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2008, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $300 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the three months ended March 31, 2008 and March 31, 2007, the average rate on the auction rate bonds was 4.82% and 3.66%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA and subsequently to A and then to BBB+ by S&P and from Aaa to A2 by Moody's, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. The conversion was completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively. In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased the bonds from the remarketing agent. KU will hold some or all of such bonds until a later date, at which time KU may refinance or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 9, Subsequent Events.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$400	$ 50	$350	3.08%
December 31, 2007	$400	$ 23	$377	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at March 31, 2008 and $150 million at December 31, 2007, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$311	$94	$217	3.36%
December 31, 2007	$150	$62	$ 88	4.97%

There were no redemptions or issuances of long-term debt year-to-date through March 31, 2008.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The parties are continuing various discovery proceedings, as well as settlement negotiations. A trial date has been set for October 2008. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The Company is currently unable to determine the final outcome of this matter.

Construction Program. KU had approximately $440 million of commitments in connection with its construction program at March 31, 2008.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in the first quarter of 2008 was approximately 1.32 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In February 2008, a federal appellate court issued a decision vacating the CAMR, but the EPA and other parties have filed a motion for rehearing. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR, but those state requirements are likely to be revised to reflect the outcome of the challenge to the CAMR at the federal level.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR, KU expects to incur additional capital expenditures totaling approximately $675 million during the 2008 through 2010 time period for pollution controls, including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the U.S. Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. The parties are currently proceeding with discovery while concurrently discussing settlement. A $2 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

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

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have conducted an initial meeting on this matter. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	2008	2007
Electric operating revenues from LG&E	$14	$18
Purchased power from LG&E	27	30

Interest Charges

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

KU's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2008	2007
Interest on money pool loans	$ -	$ 1
Interest on Fidelia loans	13	7

Other Intercompany Billings

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

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

Intercompany billings to and from KU for the three months ended March 31, were as follows:

(in millions)	2008	2007
E.ON U.S. Services billings to KU	$39	$170
KU billings to LG&E	23	14
LG&E billings to KU	1	10
KU billings to E.ON U.S. Services	1	2

Note 9 – Subsequent Events

On April 16, 2008, the Carroll County 2006 Series C bonds converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, KU purchased the bonds from the remarketing agent.

On May 1, 2008, the Mercer County 2000 Series A bonds converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, KU purchased the bonds from the remarketing agent.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three month period ended March 31, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating plants produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

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

Environmental Matters

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Net Income

Net income for the three months ended March 31, 2008, increased $1 million compared to the same period in 2007. The increase was primarily the result of increased electric revenues ($36 million), increased other income ($3 million) and decreased income taxes ($2 million), partially offset by increased operating expenses ($36 million) and increased interest expense, including interest expense to affiliated companies ($4 million).

Revenues

Revenues in the three months ended March 31, 2008, increased $36 million primarily due to:

- Increased fuel costs ($17 million) billed to customers through the FAC due to higher fuel costs (coal and natural gas) and higher transportation costs
- Increased ECR surcharge ($14 million) due to increased recoverable capital spending
- Increased sales volumes delivered ($8 million) resulting from an 8% increase in heating degree days in the first quarter of 2008 as compared to the same period in 2007
- Decreased wholesale and transmission revenues ($3 million) due to decreased power available for wholesale sales as a result of higher native load demand and lower transmission rates

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $14 million in the three months ended March 31, 2008, primarily due to:

- Increased generation to meet sales ($9 million), due to 8% more heating degree days
- Increased spot market pricing for coal/natural gas generation ($5 million) due to mine safety compliance costs and higher transportation costs

Purchased power expense increased $11 million in the three months ended March 31, 2008, primarily due to:

- Increased cost per mWh of purchases ($17 million) due to increased third party purchases and higher fuel prices
- Decreased volumes purchased ($6 million) due to increased internal generation as a result of higher native load demand

Other operation and maintenance expenses increased $7 million in the three months ended March 31, 2008, primarily due to increased other operation expenses ($4 million) and increased maintenance expenses ($3 million).

Other operation expenses increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased generation, transmission and distribution expenses, including labor for storm restoration ($2 million)
- Increased outside services ($1 million)
- Increased expense for uncollectible accounts ($1 million)

Maintenance expenses increased $3 million in the three months ended March 31, 2008, primarily due to increased contractor and overtime labor expense for storm restoration

Interest expense, including interest expense to affiliated companies, increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased interest expense to affiliated companies ($5 million) due to increased affiliate borrowings
- Decreased interest expense ($1 million) due to the refinancing of First Mortgage bonds with loans from Fidelia and defeasance of pollution control bonds ($2 million), partially offset by higher interest rates on auction rate pollution control bonds ($1 million)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.1	3.7
Amortization of investment tax credits	(0.1)	(0.1)
EEI Dividend	(3.5)	(2.5)
Other differences	(2.1)	(1.3)
Effective income tax rate	32.4%	34.8%

The effective income tax rate decreased for the three months ended March 31, 2008 compared to the three months ended March 31, 2007, due primarily to an increase in dividends received from EEI, a decrease in Other Differences due to an increase in Section 199, Manufacturing deduction and a decrease in state income taxes net of federal benefit due to an increase in state coal credits.

Liquidity and Capital Resources

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $127 million and $113 million for the three months ended March 31, 2008 and 2007, respectively.

The 2008 increase of $14 million was primarily the result of increases in cash due to changes in:

- FAC receivable, net ($17 million)
- Pension and postretirement funding ($14 million) due to higher pension funding in 2007
- Accrued income taxes ($12 million)
- Prepayments and other current assets ($1 million)

These increases were partially offset by cash provided by changes in:

- Accounts payable ($8 million)
- Accounts receivable ($7 million)
- Other current liabilities ($6 million)
- Materials and supplies ($5 million)
- Earnings, net of non-cash items ($3 million)
- Other ($1 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $184 million and $125 million in the three months ended March 31, 2008 and 2007, respectively. Net cash used for investing activities increased $56 million in the three months ended March 31, 2008, compared to 2007 primarily due to increased capital expenditures of $59 million. Restricted cash increased $3 million and represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows from financing activities were $52 million and $10 million in the three months ended March 31, 2008 and 2007, respectively.

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

Future Capital Requirements

KU expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

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

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In

November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of March 31, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

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

Controls and Procedures

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

KU is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of KU's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in KU's Annual Report have not materially changed.

Other

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

Report of Certain Material Changes
January 2009 – December 2009

an e·on company

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

February 6, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to January 2009, KU filed a unanimous Settlement Agreement, Stipulation, and Recommendation for the consolidated depreciation and base rate electric case.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

KU
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MAR 06 2009

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Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

March 6, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes regarding which KU believes it may have filed a Form 8-K with the Securities and Exchange Commission ("SEC") if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to February 2009, KU reports the following items:

- Announcement of the settlement agreement with the U.S. EPA and Department of Justice for KU's E.W. Brown plant new source review litigation.
- Issuance of the Commission's Order approving the settlement agreement in KU's base electric rate case.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Mr. Jeff Derouen
Executive Director
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April 6, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes regarding which KU believes it may have filed a Form 8-K with the Securities and Exchange Commission ("SEC") if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to March 2009, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

an e·on company

Mr. Jeff DeRouen
Executive Director
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May 7, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to April 2009, KU believes it would have filed a Form 8-K for the following events:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $50 million, matures in April 2017 and carries an interest rate of 5.28%.
- KU's filing of an application with the Commission for regulatory asset treatment for approximately $62 million (of $98 million) in restoration costs relating to the severe ice storm which occurred during January-February 2009.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
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June 5, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes regarding which KU believes it may have filed a Form 8-K with the Securities and Exchange Commission ("SEC") if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to May 2009, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
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211 Sower Boulevard
Frankfort, Kentucky 40601

July 7, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to June 2009, KU believes it would have filed a Form 8-K for the following events:

- On June 2, 2009, KU submitted an application with the Virginia State Corporation Commission for an increase in base electric rates applicable to its Virginia jurisdictional customers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KU

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PUBLIC SERVICE COMMISSION

Mr. Jeff DeRouen
Executive Director
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August 7, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to July 2009, KU believes it would have filed a Form 8-K for the following event:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $50 million, matures in July 2019 and carries an interest rate of 4.81%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
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September 9, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to August 2009, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
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October 7, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to September 2009, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

November 5, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to October 2009, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
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December 7, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to November 2009, KU believes it would have filed a Form 8-K for the following event:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $50 million, matures in November 2019 and carries an interest rate of 4.445%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

January 11, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to December 2009, KU believes it would have filed a Form 8-K for the following events:

- KU's announcement of its intention to file an application for increase in base electric rates in Kentucky
- Commission's Order approving the parties' settlement in KU's 2009 environmental cost recovery proceeding
- KU's submission of a proposed settlement with the Virginia State Corporation Commission staff in its application for an increase in base electric rates in Virginia

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Report of Certain Material Changes
January 2008 – December 2008

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PUBLIC SERVICE COMMISSION

KU

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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

February 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to January 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

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MAR 14 2008

PUBLIC SERVICE
COMMISSION

KU
an e·on company

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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Lonnie E. Bellar
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March 14, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to February 2008, KU believes it would have filed a Form 8-K for the following events:

- KU's planned conversion of two pollution control bond series to a fixed interest rate mode (the Carroll County 2007 Series A and Trimble County 2007 Series A bonds, respectively).

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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APR 07 2008

PUBLIC SERVICE COMMISSION

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Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

April 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to March 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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MAY 15 2008

PUBLIC SERVICE COMMISSION

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Executive Director
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lonnie.bellar@eon-us.com

May 15, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to April 2008, KU converted its Carroll County 2006 Series C tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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JUN 09 2008

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Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

June 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to May 2008, KU converted its Mercer County 2000 Series A tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

KU also entered into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $75 million, matures in May 2023 and carries an interest rate of 5.85%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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JUL 08 2008

PUBLIC SERVICE COMMISSION

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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

July 7, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to June 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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AUG 08 2008

PUBLIC SERVICE
COMMISSION

an e·on company

Ms. Stephanie L. Stumbo
Executive Director
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August 7, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to July 2008, KU believes it would have filed a Form 8-K for the following events:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $50 million, matures in July 2018 and carries an interest rate of 6.16%.
- KU's announcement of its intention to file an application for increase in base electric rates and the subsequent submission of such application.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

an e·on company

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Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

September 5, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to August 2008, KU believes it would have filed a Form 8-K for the following event:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $50 million, matures in August 2018 and carries an interest rate of 5.645%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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OCT 07 2008

PUBLIC SERVICE
COMMISSION

KU

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Ms. Stephanie L. Stumbo
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lonnie.bellar@eon-us.com

October 7, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to September 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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PUBLIC SERVICE COMMISSION

KU

an e·on company

Ms. Stephanie L. Stumbo
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Lonnie E Bellar
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lonnie.bellar@eon-us.com

November 5, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to October 2008, KU believes it would have filed a Form 8-K for the following events:

- KU's refinancing of four series of pollution control bonds totaling \$59,921,140 and a new issuance of \$18,026,265 of long-term debt. The transaction was completed as a single bond in the amount of \$77,947,405 maturing February 1, 2032.
- In connection with the above transaction, KU entered into a new revolving line of credit totaling \$78 million that matures in October 2009.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

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an e·on company

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
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lonnie.bellar@eon-us.com

December 5, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to November 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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PUBLIC SERVICE COMMISSION

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Vice President
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F 502-217-2109
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January 9, 2009

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. Derouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to December 2008, KU believes it would have filed a Form 8-K for the following events:

- KU's entering into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $75 million, matures in December 2018 and carries an interest rate of 7.035%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(t)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:

1. *A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;*

2. *An explanation of how the allocator for the test period was determined; and*

3. *All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;*

Response:

1. Please see the attached schedule for a description of the amounts charged or allocated to KU. The method of allocation is set forth in the attached Cost Allocation Manual.

2. The allocator for the test period was determined using the methodology set forth in the Cost Allocation Manual.

3. The amounts charged, allocated or paid during the test period were reasonable for the following reasons:

   (i) the Cost Allocation Manual has been filed with the Kentucky Public Service Commission; (ii) the allocations are made utilizing the methodology set forth in the Cost Allocation Manual; (iii) the allocations are reviewed to assure that they have been made in accordance with the Cost Allocation Manual.

Kentucky Utilities Company
Intercompany Charges Billed From:

	Test Year Nov. 08 - Oct. 09	Year Jan. 08 - Dec. 08	Year Jan. 07 - Dec. 07	Year Jan. 06 - Dec. 06
Louisville Gas and Electric Company	$ 38,510,461	$ 27,933,091	$ 151,017,870	$ 294,191,542
E.ON U.S. Services Inc.	$ 165,876,501	$ 225,672,966	$ 468,422,206	$ 330,435,769

Cost Allocation Manual

E.ON U.S. SERVICES INC.

Cost Allocation Manual

E.ON U.S. Services Inc.
Cost Allocation Manual

CAM	Cost Allocation Manual
Capital Corp.	E.ON U.S. Capital Corp.
EMS	Energy Management System
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Foundation	E.ON U.S. Foundation Inc.
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
PUHCA 2005	Public Utility Holding Company Act of 2005
SA	Service Agreement
SEC	Securities Exchange Commission
SERVCO	E.ON U.S. Services Inc.
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. Services Inc.
Cost Allocation Manual

Table of Contents

E.ON U.S. Services Inc.
Cost Allocation Manual

I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that SERVCO will follow in performing certain services for affiliate companies. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that SERVCO costs are fully segregated, and fairly and equitably allocated among the affiliate companies. SERVCO was authorized to conduct business as a service company for E.ON U.S. (formerly LG&E Energy LLC) and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001.

Periodic changes to the CAM may be necessary due to future management decisions, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. DESCRIPTION OF SERVICES

Service descriptions are organized by SERVCO responsibility areas, or provider departments and include the costs associated with providing that service.

Operations Organization

Retail Business Services

Customer Services – providing call center and customer communication services for both electric and gas customers.

Sales and Marketing Services – providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development, and demand side management.

Economic Development and Major Accounts Services – maintains community development, partnerships with state, regional, and local economic development allies, and customized products and services.

Meter Reading Services – providing meter reading and meter data services.

Meter Operations Services – conducts the testing of meters, completion of all customer requested service/field credit orders and the installation of commercial/industrial meters.

Meter Asset Management Services – maintains inventory, quality and environmental issues, policy and standards, technical support, and logistics.

Cash Remittance Services – provides remittance processing, customer payments, and collection services.

Billing Integrity Services – administering and providing customer billings and credit reviews.

Energy Services

Project Engineering Services – coordinating and managing all major generation construction.

System Laboratory Services – providing system laboratory services to the generating stations.

Generation Engineering Services – providing engineering management for new and existing generation assets.

Combustion Turbines Operations and Maintenance Services

Fuel Procurement Services – procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.

Transmission Strategy and Planning Services

Transmission Protection and Substation Services

Transmission Line Services

Transmission Reliability and Compliance Services

Transmission System Operations Services – providing transmission system control center services.

Transmission EMS Services

Energy Marketing Services

Energy Marketing Services - providing market services to take advantage of the highest excess generation prices in the open market.

Market Forecasting Services – providing management services for financial forecasts of the utility market.

Load Forecasting Services – providing short- and long-term load forecasting services.

Generation Planning Services – providing short- and long-term generation planning services.

Distribution Operations Services

Network Trouble and Dispatch Services – providing dispatch services, reporting outage situations and coordinating restoration.

Mapping and Records Management Services – providing and maintaining the mapping of the electric infrastructure.

Electric Engineering Services – providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and telecommunications systems design and analyses.

Distribution Asset Management Services – leads management and investment decisions regarding distribution assets, including resource allocation, development of uniform standards and procedures, determining performance targets and managing assets information and data.

Substation Construction and Maintenance Services – providing engineering and design services for substation construction, maintenance and operations areas.

Finance Organization

Finance and Corporate Development Services

Budgeting Services - providing services related to managing, coordinating and reporting for the budgeting process.

Financial Planning Services – providing services related to financial planning and forecasting services, investment analysis and investment planning reports.

Financial Systems – providing business support and electronic data processing services for all financial systems including Oracle Applications, PowerPlant and PowerTax.

Corporate Controller Organization Services

Internal Financial and Management Reporting Services – providing internal financial reports including standard and ad hoc management reporting.

External Financial Reporting Services – providing financial reports required or used by various external constituencies such as the FERC, the Kentucky Public Service Commission, the Virginia State Corporation Commission, U.S. Department of Energy (DOE), Internal Revenue Service, Nationally Recognized Municipal Securities Information Repository and financial institutions.

Accounting and Reporting Services – providing to management U.S. Generally Accepted Accounting Principles (GAAP), FERC, and International Financial Reporting Standards (IFRS) accounting research and interpretation and promulgation of accounting and internal control procedures. Perform U.S. GAAP and IFRS general ledger account and project analyses, reconciliations, and consolidation.

Sundry Billing Services – processing miscellaneous and non-standard billings and maintaining and monitoring associated accounts receivable.

Property Accounting Services – maintaining, analyzing and reporting related to continuing property records.

Energy Marketing Accounting Services – performing month-end validation of all power transactions and resolving any discrepancies; preparing invoices and wires; validating bills from other counterparties; preparing accounting, allocation and analysis of off system sales, off system purchases, and intercompany sales and purchases; and preparing various FERC, Fuel Adjustment Clause, Southwest Power Pool, and DOE reports.

Revenue Accounting Services – managing and analyzing internal and external revenue reporting.

Corporate Tax and Payroll Organization Services

Payroll Services – providing payroll services including the managing of payroll systems.

Tax Accounting, Compliance and Reporting Services -- preparation of consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts; sales/use tax; E.ON U.S. Foundation returns and supporting roles for business development, special requests and tax legislation.

Tax Planning Services – providing detailed forecasting of foreign, federal and state taxes, as well as, capital based and property tax planning.

Tax – Special Projects Services – providing business or project development, asset dispositions, tax credit studies, review/analysis of proposed tax legislation, etc.

Audit Services – providing independent and objective assurance along with consulting services and internal controls system review.

Information Technology Services

Information Technology - Corporate Functions Services -- services associated with corporate functions, not specific companies or work groups, and include groups such as IT Security, IT Finance and Administration, IT Training, and IT Strategy and Planning. This is where corporate standards, security policies and procedures and programs are developed and administered for the corporation.

Information Technology - Administrative Services – services associated with non-project management and administrative support. Total administrative services are proportionally recovered based on the level of charges assigned from the other products and services.

Information Technology - Enhancements – provides discretionary, project-based work done in IT. These projects create new client value or add business value to existing products/services.

Information Technology - Application Services – services associated with each of the existing applications that IT provides to the business, for example Oracle Applications, PeopleSoft, etc. These services incur costs related to application license fees and application support costs.

Information Technology - Client Services – services associated with existing end user tools and related productivity software that the users can identify and interact with, such as a personal computer, telephone, email and file and print services.

Information Technology - Platform Services – services associated with shared computing platforms, databases, network and IT Service Desk.

Corporate Finance and Treasury Services

Cash Management and Investment Services – providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines.

Corporate Finance Services – providing overall finance options including evaluation of new financing vehicles and instruments, analysis of existing financing positions and raising long-term funds for all entities.

Risk Management Services – managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.

Credit Administration Services – providing management of credit risk for wholesale energy sales and major vendors.

Energy Marketing Trading Controls Services – performing daily, weekly, monthly and ad hoc reporting on the trading portfolios related to total exposure, trading limits, and mark-to-market calculations. Other activities include performing an independent valuation and validation of significant transactions, and valuation algorithms, ensuring trading system security and performing trading system enhancements.

Energy Marketing Contract Administration Services – negotiating contracts with counterparties, administrating contracts, and maintaining contracts within the trading systems. Additional activities include assisting various departments with contract disputes and preparing and validating confirmations.

Supply Chain and Logistics Services

Procurement and Major Contracts Services – providing for and administering major contract negotiations, requests for quotes, supplier relations and order placement services.

Strategic Sourcing Services – providing strategic sourcing services such as maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance.

Materials Logistics Services – providing order management, materials handling and logistics, and inventory management services.

Sourcing Support Services – providing order management and general field support services for system policy and maintenance management, developing and monitoring of key performance metrics, and supplying day to day variance and reconciliation reporting services.

Accounts Payable Services – processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis services.

General Counsel / Secretary Organization

Compliance, Legal, and Environmental Affairs Services

Compliance and Legal Services – providing various legal and compliance services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and intellectual property law, evaluating legal claims and managing legal fees for outside counsel, as well as, compliance assessment and risk management, code of conduct, anti-fraud, ethics and helpline management, etc.

Environmental Affairs Services – providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, and representing the company in industry groups and before regulatory agencies dealing with environmental issues.

Regulatory Affairs and Government Affairs Management Services

Regulatory Affairs Services – providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.

Government Affairs Management Services – maintaining relationships with government policy makers and conducting lobbying activities.

Corporate Communications and Public Affairs Management Services

Internal Communications Services

External and Brand Communications Services – providing all administrative and management support for external communication services, brand image management and corporate events.

Public Affairs Management Services – providing community relations functions, communicating public information to local organizations and providing oversight and communications to employees.

Administration Organization

Operating Services

Facilities and Building Services – providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.

Security Services – providing security personnel, security and monitoring devices for all affiliated entities.

Production Mail Services – providing production mail services for customer bills and other large customer mailings.

Document Services – providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.

Right-of-Way Services – obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.

Transportation Services

Transportation Services – providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles.

Human Resource Services

Human Resources – Compensation Services – providing services relating to the establishment and oversight of compensation policies for executives and employees.

Human Resources – Benefits Services – providing services relating to the establishment and oversight of benefits policies for employees, including administrative billings to vendors and retiree and survivor services, and maintenance of all personnel records.

Human Resources – Health and Safety Services – providing services relating to the establishment and oversight of health and safety policies for employees.

Human Resources – Organization Development and Training Services – providing training services to improve organizational effectiveness with an emphasis on employee and leadership development, leadership succession planning, and the change management process.

Human Resources – Corporate Headquarters Services – providing services relating to operational and strategic human resources management for corporate staff.

Human Resources – Energy Services – providing services relating to operational and strategic human resources management for Energy Services employees.

Human Resources – Energy Delivery Services – providing services relating to operational and strategic human resources management for Energy Delivery employees.

Technical and Safety Training Services – providing training services on technical and safety matters primarily for the Energy Delivery and Energy Services businesses.

Industrial Relations Management Services – providing communication and oversight for union matters, negotiation of union contracts, and union dispute resolution services.

Executive Management Services – providing executive leadership to the corporation which is comprised of the compensation and benefits of the corporate officers and executive assistants.

III. CORPORATE ORGANIZATION

OVERVIEW

E.ON U.S. and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. E.ON U.S. and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and state utility commissions in Kentucky. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

E.ON U.S. has four direct subsidiaries: LG&E, KU, LEM, and Capital Corp., which includes WKE, E.ON U.S. Natural Gas Trading, Inc. and the Argentine Gas Distribution businesses. E.ON U.S. has an affiliate relationship with E.ON U.S. Foundation due to overseeing all operations of the foundation.

UTILITY OPERATIONS

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, LG&E supplied natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee.

SERVICE COMPANY

SERVCO, a Kentucky corporation is a centralized service company registered under the PUHCA 2005 and is authorized to conduct business as a service company for E.ON U.S. and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. SERVCO is the service company for affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp, and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO provides its services at cost, as permitted under PUHCA 2005.

Development of the SERVCO organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the SERVCO organization. In many respects, employees residing in typical finance, administrative and general, management and other support departments are fully subject to SERVCO organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to SERVCO placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to SERVCO placement.

OTHER BUSINESS OPERATIONS

E.ON U.S. Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

SERVCO also transacts business with E.ON AG and its affiliates on behalf of E.ON U.S.

LEM engages in asset based energy marketing which primarily involves the marketing of power generated by non-utility physical assets controlled by E.ON U.S. and its affiliates.

Capital Corp. is the primary holding company for the E.ON U.S.'s non-utility businesses. Its businesses include:

WKE and affiliates. WKE has a 25-year lease of and operates the generating facilities of Big Rivers Electric Corporation, a power generation cooperative in western Kentucky, and a coal-fired facility owned by the City of Henderson. E.ON U.S. plans to discontinue the operations of WKE.

Argentine Gas Distribution. Through its Argentine Gas Distribution operations, Capital Corp. owns interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Distribuidora de Gas Del Centro S.A. and Distribuidora de Gas Cuyana S.A.).

Natural Gas Trading: E.ON U.S. Natural Gas Trading Inc. engages in non-utility financial and physical trading of natural gas.

IV. TRANSACTIONS WITH AFFILIATES

OVERVIEW

E.ON U.S. formed SERVCO, as a service company to provide goods and services for affiliated companies within the E.ON U.S. system. SERVCO and affiliated companies (or their parent entities) may enter into SAs, which may establish the general terms and conditions for providing those services, including those mentioned in Section II of the CAM.

At formation certain LG&E, KU and E.ON U.S. employees became employees of SERVCO and such employees continued to provide goods and services to the regulated and non-regulated entities. SERVCO provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO also coordinates the intercompany billings with E.ON and their affiliates which mainly include transactions for expatriate services.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions between SERVCO and the regulated and non-regulated affiliates.

Definitions of Cost

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.
Fair Market Value – The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).
Cost – The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. SERVCO follows the definition of cost defined in PUHCA 2005.

This section separately details the nature and frequency for services provided by SERVCO to affiliated companies, as described below:

Ongoing – Provided on a prearranged, continuous basis (i.e., daily)
Frequent – Provided as requested on a regular basis (i.e., several times per month)
Infrequent – Provided as requested on an irregular basis (i.e., several times per year)

All charges by SERVCO to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

R – Regulated (LG&E and KU)
NR – Non-regulated (Capital Corp., LEM and E.ON U.S. Foundation)
C – Corporate (E.ON and its subsidiaries and affiliates, E.ON U.S. and Capital Corp.)
A – All

TRANSACTIONS PROVIDED BY SERVCO TO AFFILIATES

Product or Service	**Frequency**	**Primary Affiliate**
Customer Services	Ongoing	R
Sales and Marketing Services	Frequent	R, NR
Economic Development and Major Accounts Services	Frequent	R
Meter Reading Services	Ongoing	R
Meter Operations Services	Ongoing	R
Meter Asset Management Services	Ongoing	R
Cash Remittance Services	Ongoing	R
Billing Integrity Services	Ongoing	R
Transportation Services	Ongoing	A
Project Engineering Services	Infrequent	R
System Laboratory Services	Ongoing	R
Generation Engineering Services	Ongoing	R
Combustion Turbine Operations and Maintenance Services	Ongoing	R
Fuel Procurement Services	Ongoing	R
Transmission Strategy and Planning Services	Ongoing	R
Transmission Protection and Substation Services	Ongoing	R
Transmission Line Services	Ongoing	R
Transmission Reliability and Compliance Services	Ongoing	R
Transmission System Operations Services	Ongoing	R
Transmission EMS Services	Ongoing	R
Energy Marketing Services	Ongoing	R
Market Forecasting Services	Frequent	R
Load Forecasting Services	Frequent	R
Generation Planning Services	Ongoing	R
Network Trouble and Dispatch Services	Ongoing	R
Mapping and Records Management Services	Ongoing	R
Electric Engineering Services	Ongoing	R
Distribution Asset Management Services	Ongoing	R
Substation Construction and Maintenance Services	Frequent	R
Distribution Management Services	Ongoing	R
Budgeting Services	Frequent	A
Financial Planning Services	Frequent	A
Financial Systems	Ongoing	A
Internal Financial and Management Reporting Services	Frequent	A
External Financial Reporting Services	Frequent	A
Accounting and Reporting Services	Ongoing	C

Sundry Billings Services	Ongoing	A
Property Accounting Services	Ongoing	R
Energy Marketing Accounting Services	Ongoing	A
Revenue Accounting Services	Ongoing	R
Payroll Services	Ongoing	A
Tax Accounting, Compliance and Reporting Services	Ongoing	A
Tax Planning Services	Infrequent	A
Tax – Special Projects Services	Infrequent	A
Audit Services	Ongoing	A
IT Corporate Functions Services	Ongoing	A
IT Administrative Services	Ongoing	A
IT Project Services	Frequent	A
IT Application Services	Ongoing	A
IT Client Services	Ongoing	A
IT Platform Services	Ongoing	A
Cash Management and Investment Services	Ongoing	A
Corporate Finance Services	Ongoing	A
Risk Management Services	Ongoing	A
Credit Administration Services	Ongoing	A
Energy Marketing Trading Controls Services	Ongoing	A
Energy Marketing Contract Administration Services	Ongoing	A
Compliance and Legal Services	Ongoing	A
Environmental Affairs Services	Frequent	R
Regulatory Affairs Services	Ongoing	R
Government Affairs Management Services	Frequent	C
Internal Communications Services	Frequent	C
External and Brand Communications	Frequent	C
Public Affairs Management Services	Frequent	C
Facilities and Building Services	Ongoing	A
Security Services	Ongoing	A
Production Mail Services	Ongoing	R
Document Services	Ongoing	A
Right of Way Services	Ongoing	A
Transportation Services	Ongoing	A
Procurement and Major Contracts Services	Ongoing	A
Strategic Sourcing Services	Ongoing	A
Materials Logistics Services	Ongoing	R
Sourcing Support Services	Ongoing	R
Accounts Payable Services	Ongoing	A
HR Compensation Services	Frequent	A

HR Benefits Services	Frequent	A
HR Health and Safety Services	Frequent	A
HR Organizational Development and Training Services	Frequent	A
HR Corporate Headquarters Services	Frequent	A
HR Energy Services	Frequent	R
HR Energy Delivery Services	Frequent	R
Technical and Safety Training Services	Frequent	R
Industrial Relations Management Services	Frequent	R
Executive Management Services	Ongoing	A

V. COST APPORTIONMENT METHODOLOGY

OVERVIEW

The costs of services provided by SERVCO will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the product or service.

> ***Directly Assignable*** – Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-SERVCO employees that perform dedicated services to one affiliate, although SERVCO employees also directly report where feasible.
>
> ***Directly Attributable*** – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.
>
> ***Indirectly Attributable*** -- Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.
>
> ***Unattributable*** – Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to Capital Corp.

SERVCO will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The allocation methods used by SERVCO are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, cubic feet of natural gas) of the contract for both coal and natural gas for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Departmental Charge Ratio – A specific SERVCO department ratio based upon various factors such as labor hours, labor dollars, departmental or entity headcount, etc. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of product or service being performed and are documented and monitored by the Budget Coordinators for each department.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies.

Energy Marketing Ratio – Based on the absolute value of equivalent megawatt hours purchased or sold for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Information Systems Chargeback Rates – Rates for services, including but not limited to software, consulting, mainframe and personal computer services, are based on the costs of labor, materials and information services overheads related to the provision of each service. Such rates are applied based on the specific equipment employed and the measured usage of services by client entities.

Non-Fuel Material and Services Expenditures – A ratio based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities.

Number of Customers Ratio – A ratio based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial).

Number of Employees Ratio – A ratio based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate SERVCO employee costs to the proper legal entity.

Number of Meters Ratio – Ratio based on the number or types of meters being utilized by all levels of customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E.

Number of Transactions Ratio – Based on the sum of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. For example, services with regard to Procurement and Major Contracts would define a transaction as the number of contracts negotiated. Services pertaining to Materials Logistics would define the transaction as the number of items ordered, picked and disbursed out of the warehouse. Services pertaining to Accounts Payable would define the transaction as the number of invoices processed. The Regulatory Accounting and Reporting Department is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to SERVCO billings.

Payroll Ratio – Based on the sum of the payroll costs for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Project Ratio – Based on the total costs for any departmental or affiliate project for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Regulatory Mandate Ratios – Based on federal or state mandated percentage allocations based on regulatory proceedings and requirements. These ratios are typically developed in concert with regulatory authorities representing the results of merger or joint asset ownership negotiations and are supported by specific contracts regarding legal entity allocation requirements. Contract terms are maintained by the Regulatory Accounting and Reporting Department.

Retail Revenue Ratio – Based on utility revenues, excluding energy marketing revenues, for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Total Assets Ratio – Based on the total assets at year end for the preceding year, the numerator of which is for an operating company or affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. In the event of joint ownership of a specific asset, asset ownership percentages will be utilized to assign costs.

Transportation Resource Management System Chargeback Rate – Rates for use of transportation equipment are based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities.

The following product and service listing details the type of assignments being employed.

Product or Service	**Assignment Method**
Customer Services	Number of Customers Ratio
Sales and Marketing Services	Departmental Charge Ratio
Economic Development and Major Account Services	Departmental Charge Ratio
Meter Reading Services	Departmental Charge Ratio
Meter Operations Services	Number of Meters Ratio
Meter Asset Management Services	Number of Meters Ratio
Cash Remittance Services	Revenue Ratio
Billing Integrity Services	Number of Customers Ratio
Project Engineering Services	Total Assets Ratio
System Laboratory Services	Departmental Charge Ratio
Generation Engineering Services	Departmental Charge Ratio
Combustion Turbine Operations and Maintenance Services	Total Assets Ratio
Fuel Procurement Services	Contract Ratio
Transmission Strategy and Planning Services	Departmental Charge Ratio
Transmission Protection and Substation Services	Departmental Charge Ratio
Transmission Line Services	Departmental Charge Ratio
Transmission Reliability and Compliance Services	Departmental Charge Ratio
Transmission System Operations Services	Departmental Charge Ratio
Transmission EMS Services	Regulatory Mandate Ratios
Regulatory Energy Marketing Services	Regulatory Mandate Ratios
Market Forecasting Services	Departmental Charge Ratio
Load Forecasting Services	Departmental Charge Ratio
Generation Planning Services	Electric Peak Load Ratio
Network Trouble and Dispatch Services	Departmental Charge Ratio
Mapping and Records Management Services	Departmental Charge Ratio

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Product or Service	Assignment Method
Electric Engineering Services	Departmental Charge Ratio
Distribution Asset Management Services	Total Assets Ratio
Substation Construction and Maintenance Services	Departmental Charge Ratio
Distribution Management Services	Departmental Charge Ratio
Budgeting Services	Revenue, Total Assets and Payroll Ratios
Financial Planning Services	Revenue, Total Assets and Payroll Ratios
Financial Systems	Number of Employees Ratio
Internal Financial and Management Reporting Services	Revenue, Total Assets and Payroll Ratios
External Financial Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounting and Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounts and Projects Services	Revenue, Total Assets and Payroll Ratios
Sundry Billings Services	Revenue, Total Assets and Payroll Ratios
Property Accounting Services	Departmental Charge Ratio
Accounts Payable Services	Number of Transactions Ratio
Energy Marketing Accounting Services	Energy Marketing Ratio
Revenue Accounting Services	Retail Revenue Ratio
Payroll Services	Payroll Ratio
Tax Accounting, Compliance and Reporting Services	Departmental Charge Ratio
Tax Planning Services	Departmental Charge Ratio
Tax – Special Projects Services	Direct Charges Only
Audit Services	Project Ratio
IT Corporate Functions Services	Information Systems Chargeback Rates
IT Administrative Services	Information Systems Chargeback Rates
IT Project Services	Information Systems Chargeback Rates
IT Application Services	Information Systems Chargeback Rates
IT Client Services	Information Systems Chargeback Rates
IT Platform Services	Information Systems Chargeback Rates
Cash Management and Investment Services	Revenue, Total Assets and Payroll Ratios
Corporate Finance Services	Revenue, Total Assets and Payroll Ratios
Risk Management Services	OUTSOURCED – Direct Charges Only
Credit Administration Services	Energy Marketing Ratio
Energy Marketing Trading Controls Services	Energy Marketing Ratio
Energy Marketing Contract Administration Services	Energy Marketing Ratio
Strategic Planning Services	Direct Charges Only
Compliance and Legal Services	Departmental Charge Ratio
Environmental Affairs Services	Departmental Charge Ratio
Regulatory Affairs Services	Revenue Ratio
Government Affairs Management Services	Departmental Charge Ratio

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Cost Allocation Manual

Product or Service	Assignment Method
Internal Communication Services	Departmental Charge Ratio
External and Brand Communication Services	Departmental Charge Ratio
Public Affairs Management Services	Departmental Charge Ratio
Facilities and Building Services	Departmental Charge Ratio
Security Services	Departmental Charge Ratio
Production Mail Services	Number of Customers Ratio
Document Services	Number of Employees Ratio
Right-of-Way Services	Departmental Charge Ratio
Transportation Services	Transportation Resource Management System Chargeback Rates
Procurement and Major Contracts Services	Non-Fuel Material and Services Expenditures Ratio
Strategic Sourcing Services	Non-Fuel Material and Services Expenditures Ratio
Materials Logistics Services	Number of Transactions Ratio
Sourcing Support Services	Non-Fuel Material and Services Expenditures Ratio
Accounts Payable Services	Number of Transactions Ratio
HR Compensation Services	Number of Employees Ratio
HR Benefits Services	Number of Employees Ratio
HR Health and Safety Services	Number of Employees Ratio
HR Organization Development and Training Services	Number of Employees Ratio
HR Corporate Headquarters Services	Number of Employees Ratio
HR Energy Services	Number of Employees Ratio
HR Energy Delivery Services	Number of Employees Ratio
Technical and Safety Training Services	Number of Employees Ratio
Industrial Relations Management Services	Departmental Charge Ratio
Executive Management Services	Departmental Charge Ratio

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

SERVCO utilizes ORACLE or other financial systems in which project/task combinations are set up to equate to products and services. In some cases, departments have set up many project/tasks that map to products and services. In many cases, there is a one to one relationship between the project/task and the product. The ORACLE system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific products reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of SERVCO financial statements. This ensures that:

1. Separation of costs between regulated and non-regulated affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions between SERVCO and affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days. Interest charges at a reasonable rate may apply.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

SERVCO has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the type of time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees of a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the Virtual Online Time System (VOLTS) and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the VOLTS, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its budget coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction can be entered into the VOLTS by using the "in and out" function.

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(u)
Sponsoring Witness: W. Steven Seelye

Description of Filing Requirement:

If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.

Response:

Please refer to the testimony and exhibits of W. Steven Seelye.

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(v)
Sponsoring Witness: Lonnie E. Bellar

Description of Filing Requirement:

Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file:

1. *A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and*

2. *Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access:*

    a. *Based on current and reliable data from a single time period; and*

    b. *Using generally recognized fully allocated, embedded, or incremental cost principles.*

Response:

Not applicable to KU's Application.

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(a)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;

Response:

See attached.

Kentucky Utilities Company
Income Statement
12 Months Ending October 31, 2009

		Jurisdictional Electric		Adjustments Inc(Dec)	Adjusted
1	**OPERATING REVENUES**				
2	Total Sales to Ultimate Consumers	$ 1,166,544,582			
3	Sales for Resale	41,533,932			
4	Late Payment Charges	4,397,443			
5	Rent from Electric Property	1,229,373			
6	Miscellaneous Service Revenue	7,955,285			
7	Total Operating Revenue	$ 1,221,660,615	(1)	$ (60,813,221)	$ 1,160,847,394
8					
9	**OPERATING EXPENSES**				
10	Fuel	395,494,575	(2)	(42,231,035)	353,263,540
11	Power Purchased	177,630,092	(3)	(17,012,473)	160,617,619
12	Operating and Maintenance	246,575,923	(4)	14,112,695	260,688,618
13	Depreciation and Amortization	118,691,052	(5)	15,710,135	134,401,187
14	Taxes Other Than Income Taxes	38,388,065	(6)	934,574	39,322,639
15	Income Taxes	53,833,935	(7)	(10,374,244)	43,459,691
16	(Gains) from Disposition of Allowances	(73,173)			(73,173)
17	Total Utility Operating Expenses	1,030,540,469		(38,860,348)	991,680,121
18	Net Utility Operating Income	191,120,146		(21,952,873)	169,167,273
19					
20	Net Other Income and Deductions				
21					
22	Net Interest Charges				
23					
24	Net Income	191,120,146		(21,952,873)	169,167,273
25					
26	Net Income Available for Common	$ 191,120,146	(8)	$ (21,952,873)	$ 169,167,273

Net other income and deductions are not assigned to Kentucky jurisdiction.

Kentucky Utilities
Pro-Forma Income Statement
Summary of Adjustments

Reference Schedule	Description	Witness	(1) Operating Revenue	(2) Fuel	(3) Power Purchased	(4) Operation and Maintenance	(5) Depreciation and Amortization	(6) Taxes Other Than Income Taxes	(7) Income Taxes	(8) Income Statement
1.00	Adjustment to eliminate unbilled revenues	Bellar	$ (3,744,529)							$ (3,744,529)
1.01	Adjustment to eliminate Merger Surcredit	Bellar	2,800,345							2,800,345
1.02	Adjustment to eliminate Value Delivery Surcredit	Bellar	42							42
1.03	To adjust mismatch in fuel cost recovery	Conroy	(49,848,679)	$ (42,231,035)						(7,617,644)
1.04	FAC roll-in	Conroy	(3,710,701)							(3,710,701)
1.05	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	(92,924,384)			$ (10,158,095)	$ (19,555,593)	$ (1,223,140)		(61,987,556)
1.06	To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	Conroy	87,584,103			5,398,396	16,052,908	907,774		65,225,025
1.07	Off-system sales revenue adjustment for the ECR calculation	Conroy	(3,722,927)							(3,722,927)
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott	(256,817)			(6,096)				(250,721)
1.09	To eliminate ECR, MSR, FAC, and DSM accruals	Charnas	283,654							283,654
1.10	To eliminate DSM revenue and expenses	Conroy	(12,940,085)			(7,500,349)				(5,439,736)
1.11	To reflect weather normalized electric sales margins	Seelye	2,986,579			1,489,506				1,497,073
1.12	Adjustment to annualize year-end customers	Seelye	9,724,872			5,885,824				3,839,048
1.13	To adjust for customer billing corrections and rate switching	Conroy	(186,358)							(186,358)
1.14	Adjustment to revenues for late payment charge	Bellar	3,141,664							3,141,664
1.15	Adjustment to reflect annualized depreciation expenses	Charnas/Bellar					19,212,820			(19,212,820)
1.16	Adjustment to reflect increases in labor and labor related costs	Scott				734,167		50,297		(784,464)
1.17	Adjustment for pension, post retirement, and post employment costs	Scott				(139,829)				139,829
1.18	Adjustment to reflect the increase in property insurance expense	Arbough				373,107				(373,107)
1.19	Adjustment to reflect new pollution liability insurance expense	Arbough				574,164				(574,164)
1.20	Adjustment for hazard tree program	Bellar				3,791,496				(3,791,496)
1.21	Adjustment to reflect normalized storm damage expense	Scott				(1,267,873)				1,267,873
1.22	Adjustment for injuries and damages FERC account 925	Charnas				200,710				(200,710)
1.23	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Charnas				(799,431)				799,431
1.24	Adjustment for expenses related to retired mainframe	Charnas				(843,623)				843,623
1.25	Adjustment for MISO Exit Fee regulatory asset	Scott				(83,909)				83,909
1.26	Adjustment for EKPC regulatory asset	Scott				1,785,051				(1,785,051)
1.27	Adjustment for 2008 Wind storm regulatory asset	Scott				2,454,286				(2,454,286)
1.28	Adjustment for 2009 Winter storm regulatory asset	Scott				11,447,352				(11,447,352)
1.29	Adjustment for KCCS regulatory asset	Bellar				360,504				(360,504)
1.30	Adjustment for CMRG regulatory asset	Bellar				1,940				(1,940)
1.31	Adjustment to reflect amortization of rate case expenses	Charnas				595,187				(595,187)
1.32	Adjustment for Southwest Power Pool settlement expenses	Bellar				(896,454)				896,454
1.33	Adjustment to remove out of period adjustment for resettlements related to MISO RSG	Scott				(510,123)				510,123
1.34	Adjustment to reflect expiration of OMU contract	Bellar			$ (15,673,235)					15,673,235
1.35	Adjustment for reversal of OMU uncollectible account expense	Scott				1,754,505				(1,754,505)
1.36	Adjustment to remove reserve margin demand purchases	Bellar			(1,339,238)					1,339,238
1.37	Adjustment to expenses for 2003 Ice storm amortization	Scott				(527,718)				527,718
1.38	To adjust property tax expense	Miller						1,199,643		(1,199,643)
1.39 - 1.40	These adjustments left intentionally blank	Bellar								-
1.41	Calculation of composite Federal and Kentucky income tax rate	Miller							$ (11,937,234)	11,937,234
1.42	Calculation of current tax adjustment resulting from "Interest Synchronization"	Miller							(548,031)	548,031
1.43	Adjustment for prior period income tax true-ups and adjustments	Miller							1,126,171	(1,126,171)
1.44	Adjustment for domestic production activities deduction	Miller							(457,757)	457,757
1.45	Adjustment for tax basis depreciation reduction	Miller							1,442,607	(1,442,607)
1.46	This adjustment left intentionally blank	Bellar								-
	Total Income Statement Adjustments		$ (60,813,221)	$ (42,231,035)	$ (17,012,473)	$ 14,112,695	$ 15,710,135	$ 934,574	$ (10,374,244)	$ (21,952,873)

Kentucky Utilities Company
Pro-forma Balance Sheet

		Jurisdictional 10/31/2009		Pro-forma Adjustments	Adjusted Balance
1	ASSETS				
2	**UTILITY PLANT**				
3	Utility Plant	$ 4,171,331,502	(1)	$ (39,139,918)	$ 4,132,191,584
4	Construction Work in Progress	1,025,559,217			1,025,559,217
5	Total Utility Plant	5,196,890,719		$ (39,139,918)	5,118,610,883
6	Less: Accumulated Provision for Depreciation	1,824,368,838	(2)	50,347,567	1,874,716,405
7	Net Utility Plant	3,372,521,881		(89,487,485)	3,243,894,478
8					
9	**OTHER PROPERTY AND INVESTMENTS**				
10	Nonutility Property-Less Reserve	-			-
11	Investment in Subsidiary Companies	-			-
12	Other Investments	-	(3)	-	-
13	Special Funds	-			-
14	Total Other Property and Investments	-		-	-
15					
16	**CURRENT AND ACCRUED ASSETS**				
17	Cash	3,427,388			3,427,388
18	Special Deposits	-			-
19	Working Funds	34,480			34,480
20	Temporary Cash Investments	235			235
21	Customer Accounts Receivable	62,301,025	(4)	(61,096,875)	1,204,150
22	Other Accounts Receivable	33,712,000			33,712,000
23	Less: Accum Prov. for Uncollectable Accts-Credit	1,144,945			1,144,945
24	Accounts Receivable from Associated Companies	837,511			837,511
25	Fuel	86,008,664			86,008,664
26	Plant Materials and Operating Supplies	26,842,731			26,842,731
27	Allowances	1,110,902	(5)	(850,328)	260,574
28	Stores Expense Undistributed	6,252,485			6,252,485
29	Prepayments	3,772,068			3,772,068
30	Interest and Dividends Receivable	10,880			10,880
31	Accrued Utility Revenues	53,868,529			53,868,529
32	Miscellaneous Current Assets	1,175,261			1,175,261
33	Total Current and Accrued Assets	278,209,214		(61,947,203)	216,262,011
34					
35	**DEFERRED DEBITS**				
36	Unamortized Debt Expense	4,253,411			4,253,411
37	Other Regulatory Assets	252,530,188	(6)	(18,409,497)	234,120,691
38	Preliminary Survey and Inventory	4,225,421			4,225,421
39	Clearing Accounts	1,448			1,448
40	Miscellaneous Deferred Debits	32,707,665			32,707,665
41	Unamortized Loss on Re-Acquired Debt	11,413,621			11,413,621
42	Accumulated Deferred Income Taxes	39,819,569			39,819,569
43	Total Deferred Debits	344,951,323		(18,409,497)	326,541,826
44					
45	Total Assets	$ 3,995,682,418	(7)	$ (169,844,185)	$ 3,786,698,315

Kentucky Utilities Company
Pro-forma Balance Sheet

		Jurisdictional 10/31/2009		Pro-forma Adjustments		Adjusted Balance
46	**LIABILITIES & PROPRIETARY CAPITAL**					
47	**PROPRIETARY CAPITAL**					
48	Common Stock Issued	$ 268,775,095				$ 268,775,095
49	Paid in Capital	275,507,213				275,507,213
50	(Less) Capital Stock Expense	280,244				280,244
51	Retained Earnings	1,133,307,076	(8)	$ (56,732,093)		1,076,574,983
52	Unappropriated Undistributed Subsidiary Earnings	-				-
53	*Total Proprietary Capital*	1,677,309,140		(56,732,093)	(a)	1,620,577,047
54						
55	**LONG-TERM DEBT**					
56	Bonds	305,967,336				305,967,336
57	Long-Term Debt To Associated Companies	1,117,352,250	(9)	(29,509,523)		1,087,842,727
58	Total-Long Term	1,423,319,586		(29,509,523)		1,393,810,063
59						
60	**OTHER NON-CURRENT LIABILITIES**					
61	Accumulated Provision for Injuries and Damages	2,264,889				2,264,889
62	Accumulated Provision for Pensions and Benefits	155,095,624				155,095,624
63	Total Other Non-Current Liabilities	157,360,513		-		157,360,513
64						
65	**CURRENT AND ACCRUED LIABILITIES**					
66	Accounts Payable	137,208,056	(10)	(55,908,707)		81,299,349
67	Notes Payable to Associated Companies	17,153,628	(11)	(355,543)		16,798,085
68	Accounts Payable to Associated Companies	-				-
69	Customer Deposits	21,528,305				21,528,305
70	Taxes Accrued	7,220,096	(12)	(9,439,670)		(2,219,574)
71	Interest Accrued	1,434,248				1,434,248
72	Tax Collections Payable	2,938,883				2,938,883
73	Miscellaneous Current and Accrued Liabilities	15,527,101				15,527,101
74	Total Current and Accrued Liabilities	203,010,317		(65,703,920)		137,306,397
75						
76	**DEFERRED CREDITS**					
77	Customer Advances for Construction	2,394,270				2,394,270
78	Accumulated Deferred Investment Tax Credits	84,059,458	(13)	(527,382)		83,532,076
79	Other Deferred Credits	32,860,205				32,860,205
80	Other Regulatory Liabilities	34,621,093	(14)	(7,373,570)		27,247,523
81	Asset Retirement Obligation	29,376,430				29,376,430
82	Miscellaneous Long-Term Liabilities	30,367				30,367
83	Accumulated Deferred Income Taxes	332,986,769	(15)	(9,997,697)		322,989,072
84	Total Deferred Credits	516,328,592		(17,898,649)		498,429,943
85						
86	Jurisdictional Adjustment to Balance	18,354,270		-		18,354,270
87						
88	Total Liabilities and Stockholders Equity	$ 3,995,682,418	(16)	$ (169,844,185)		$ 3,825,838,233

Reconciliation of Capitalization

Adjusted Jurisdictionalized Common Equity per Rives Exhibit 2	$ 1,644,878,318	
Net Operating Income Pro-forma Impact	(21,952,873)	
Trimble County Joint Use Assets Transfer (Common Equity allocation)	(1,350,142)	(a)
Capitalization Allocation Diference	(998,256)	(b)
Adjusted Equity per line 53 above	$ 1,620,577,047	

(a)	Trimble County Joint-use ITC per Rives Exhibit 4	$ 2,503,508
	Common Equity percentage per Rives Exhibit 2	53.93%
	Trimble County Joint Use Assets Transfer (Common Equity allocation)	$ 1,350,142

(b) Difference due to detailed factors used in the Jurisdictional Separation Study versus the overall jurisdictional factor of 87.15%.

Kentucky Utility Company
Pro-Forma Balance Sheet
Summary of Adjustments

Reference Schedule	Description	Witness	(1) Utility Plant	(2) Less: Accumulated Provision for Depreciation	(3) Other Investments
1.00	Adjustment to eliminate unbilled revenues	Bellar			
1.01	Adjustment to eliminate Merger Surcredit	Bellar			
1.02	Adjustment to eliminate Value Delivery Surcredit	Bellar			
1.03	To adjust mismatch in fuel cost recovery	Conroy			
1.04	FAC roll-in	Conroy			
1.05	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy		$ (19,555,593)	
1.06	To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	Conroy		16,052,908	
1.07	Off-system sales revenue adjustment for the ECR calculation	Conroy			
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott			
1.09	To eliminate ECR, MSR, FAC, and DSM accruals	Charnas			
1.10	To eliminate DSM revenue and expenses	Conroy			
1.11	To reflect weather normalized electric sales margins	Seelye			
1.12	Adjustment to annualize year-end customers	Seelye			
1.13	To adjust for customer billing corrections and rate switching	Conroy			
1.14	Adjustment to revenues for late payment charge	Bellar			
1.15	Adjustment to reflect annualized depreciation expenses	Charnas/Bellar		19,212,820	
1.16	Adjustment to reflect increases in labor and labor related costs	Scott			
1.17	Adjustment for pension, post retirement, and post employment costs	Scott			
1.18	Adjustment to reflect the increase in property insurance expense	Arbough			
1.19	Adjustment to reflect new pollution liability insurance expense	Arbough			
1.20	Adjustment for hazard tree program	Bellar			
1.21	Adjustment to reflect normalized storm damage expense	Scott			
1.22	Adjustment for injuries and damages FERC account 925	Charnas			
1.23	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Charnas			
1.24	Adjustment for expenses related to retired mainframe	Charnas			
1.25	Adjustment for MISO Exit Fee regulatory asset	Scott			
1.26	Adjustment for EKPC regulatory asset	Scott			
1.27	Adjustment for 2008 Wind storm regulatory asset	Scott			
1.28	Adjustment for 2009 Winter storm regulatory asset	Scott			
1.29	Adjustment for KCCS regulatory asset	Bellar			
1.30	Adjustment for CMRG regulatory asset	Bellar			
1.31	Adjustment to reflect amortization of rate case expenses	Charnas			
1.32	Adjustment for Southwest Power Pool settlement expenses	Bellar			
1.33	Adjustment to remove out of period adjustment for resettlements related to MISO RSG	Scott			
1.34	Adjustment to reflect expiration of OMU contract	Bellar			
1.35	Adjustment for reversal of OMU uncollectible account expense	Scott			
1.36	Adjustment to remove reserve margin demand purchases	Bellar			
1.37	Adjustment to expenses for 2003 Ice storm amortization	Scott			
1.38	To adjust property tax expense	Miller			
1.39 - 1.40	These adjustments left intentionally blank	Bellar			
1.41	Calculation of composite Federal and Kentucky income tax rate	Miller			
1.42	Calculation of current tax adjustment resulting from "Interest Synchronization"	Miller			
1.43	Adjustment for prior period income tax true-ups and adjustments	Miller			
1.44	Adjustment for domestic production activities deduction	Miller			
1.45	Adjustment for tax basis depreciation reduction	Miller			
1.46	This adjustment left intentionally blank	Bellar			
	Subtotal before Capitalization Adjustments		-	15,710,135	
	Capitalization Adjustments:				
	Trimble County Joint Use Assets Transfer	(A)	$ 89,756,133	47,592,205	
	Environmental Compliance Plans	(B)	(128,896,051)	(12,954,773)	
	Investment in EEI	(C)			
	Investments in OVEC & Other	(C)			
	Total Adjustments		$ (39,139,918)	$ 50,347,567	$ -

Notes:

(A) Rives Exhibit 2, Rives Exhibit 4
(B) Rives Exhibit 2, Rives Exhibit 4
(C) These adjustments were not included in the Kentucky Utilities Jurisdictional Balance Sheet and therefore do not need to be adjusted

Kentucky Utility Company
Pro-Forma Balance Sheet
Summary of Adjustments

			(4)	(5)	(6)	(7)
Reference Schedule	Description	Witness	Customer Accounts Receivable	Allowances	Other Regulatory Assets	Assets
1 00	Adjustment to eliminate unbilled revenues	Bellar	$ (3,744,529)			$ (3,744,529)
1 01	Adjustment to eliminate Merger Surcredit	Bellar	2,800,345			2,800,345
1 02	Adjustment to eliminate Value Delivery Surcredit	Bellar	42			42
1 03	To adjust mismatch in fuel cost recovery	Conroy	(49,848,679)			(49,848,679)
1 04	FAC roll-in	Conroy	(3,710,701)			(3,710,701)
1 05	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	(92,924,384)			(73,368,791)
1 06	To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	Conroy	87,584,103			71,531,195
1 07	Off-system sales revenue adjustment for the ECR calculation	Conroy	(3,722,927)			(3,722,927)
1 08	To eliminate net brokered and financial swap revenues and expenses	Scott	(256,817)			(256,817)
1 09	To eliminate ECR, MSR, FAC, and DSM accruals	Charnas			$ (3,400,405)	(3,400,405)
1 10	To eliminate DSM revenue and expenses	Conroy	(12,940,085)			(12,940,085)
1.11	To reflect weather normalized electric sales margins	Seelye	2,986,579			2,986,579
1 12	Adjustment to annualize year-end customers	Seelye	9,724,872			9,724,872
1 13	To adjust for customer billing corrections and rate switching	Conroy	(186,358)			(186,358)
1.14	Adjustment to revenues for late payment charge	Bellar	3,141,664			3,141,664
1.15	Adjustment to reflect annualized depreciation expenses	Charnas/Bellar				(19,212,820)
1.16	Adjustment to reflect increases in labor and labor related costs	Scott				-
1 17	Adjustment for pension, post retirement, and post employment costs	Scott				-
1.18	Adjustment to reflect the increase in property insurance expense	Arbough				-
1 19	Adjustment to reflect new pollution liability insurance expense	Arbough				-
1 20	Adjustment for hazard tree program	Bellar				-
1 21	Adjustment to reflect normalized storm damage expense	Scott				-
1 22	Adjustment for injuries and damages FERC account 925	Charnas				-
1.23	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Charnas				-
1.24	Adjustment for expenses related to retired mainframe	Charnas				-
1.25	Adjustment for MISO Exit Fee regulatory asset	Scott			(3,605,602)	(3,605,602)
1 26	Adjustment for EKPC regulatory asset	Scott			(111,566)	(111,566)
1 27	Adjustment for 2008 Wind storm regulatory asset	Scott			(439,103)	(439,103)
1 28	Adjustment for 2009 Winter storm regulatory asset	Scott			(11,464,467)	(11,464,467)
1 29	Adjustment for KCCS regulatory asset	Bellar			(116,227)	(116,227)
1.30	Adjustment for CMRG regulatory asset	Bellar			(1,940)	(1,940)
1 31	Adjustment to reflect amortization of rate case expenses	Charnas			729,813	729,813
1 32	Adjustment for Southwest Power Pool settlement expenses	Bellar				-
1 33	Adjustment to remove out of period adjustment for resettlements related to MISO RSG	Scott				-
1 34	Adjustment to reflect expiration of OMU contract	Bellar				-
1 35	Adjustment for reversal of OMU uncollectible account expense	Scott				-
1.36	Adjustment to remove reserve margin demand purchases	Bellar				-
1.37	Adjustment to expenses for 2003 Ice storm amortization	Scott				-
1.38	To adjust property tax expense	Miller				-
1 39 - 1 40	These adjustments left intentionally blank	Bellar				-
1 41	Calculation of composite Federal and Kentucky income tax rate	Miller				-
1 42	Calculation of current tax adjustment resulting from "Interest Synchronization"	Miller				-
1 43	Adjustment for prior period income tax true-ups and adjustments	Miller				-
1 44	Adjustment for domestic production activities deduction	Miller				-
1 45	Adjustment for tax basis depreciation reduction	Miller				-
1 46	This adjustment left intentionally blank	Bellar				-
	Subtotal before Capitalization Adjustments		(61,096,875)		(18,409,497)	(95,216,507)
	Capitalization Adjustments:					
	Trimble County Joint Use Assets Transfer	(A)				42,163,928
	Environmental Compliance Plans	(B)		$ (850,328)		(116,791,606)
	Investment in EEI	(C)				
	Investments in OVEC & Other	(C)				
	Total Adjustments		$ (61,096,875)	$ (850,328)	$ (18,409,497)	$ (169,844,185)

Notes:

(A) Rives Exhibit 2, Rives Exhibit 4

(B) Rives Exhibit 2, Rives Exhibit 4

(C) These adjustments were not included in the Kentucky Utilities Jurisdictional Balance Sheet and therefore do not need to be adjusted

Kentucky Utility Company
Pro-Forma Balance Sheet
Summary of Adjustments

Reference Schedule	Description	Witness	(8) Retained Earnings	(9) Long-Term Debt To Associated Companies	(10) Accounts Payable	(11) Notes Payable to Associated Companies
1.00	Adjustment to eliminate unbilled revenues	Bellar	$ (3,744,529)			
1.01	Adjustment to eliminate Merger Surcredit	Bellar	2,800,345			
1.02	Adjustment to eliminate Value Delivery Surcredit	Bellar	42			
1.03	To adjust mismatch in fuel cost recovery	Conroy	(7,617,644)		$ (42,231,035)	
1.04	FAC roll-in	Conroy	(3,710,701)			
1.05	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	(61,987,556)		(10,158,095)	
1.06	To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	Conroy	65,225,025		5,398,396	
1.07	Off-system sales revenue adjustment for the ECR calculation	Conroy	(3,722,927)			
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott	(250,721)		(6,096)	
1.09	To eliminate ECR, MSR, FAC, and DSM accruals	Charnas	283,654			
1.10	To eliminate DSM revenue and expenses	Conroy	(5,439,736)		(7,500,349)	
1.11	To reflect weather normalized electric sales margins	Seelye	1,497,073		1,489,506	
1.12	Adjustment to annualize year-end customers	Seelye	3,839,048		5,885,824	
1.13	To adjust for customer billing corrections and rate switching	Conroy	(186,358)			
1.14	Adjustment to revenues for late payment charge	Bellar	3,141,664			
1.15	Adjustment to reflect annualized depreciation expenses	Charnas/Bellar	(19,212,820)			
1.16	Adjustment to reflect increases in labor and labor related costs	Scott	(784,464)		734,167	
1.17	Adjustment for pension, post retirement, and post employment	Scott	139,829		(139,829)	
1.18	Adjustment to reflect the increase in property insurance expense	Arbough	(373,107)		373,107	
1.19	Adjustment to reflect new pollution liability insurance expense	Arbough	(574,164)		574,164	
1.20	Adjustment for hazard tree program	Bellar	(3,791,496)		3,791,496	
1.21	Adjustment to reflect normalized storm damage expense	Scott	1,267,873		(1,267,873)	
1.22	Adjustment for injuries and damages FERC account 925	Charnas	(200,710)		200,710	
1.23	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Charnas	799,431		(799,431)	
1.24	Adjustment for expenses related to retired mainframe	Charnas	843,623		(843,623)	
1.25	Adjustment for MISO Exit Fee regulatory asset	Scott	83,909			
1.26	Adjustment for EKPC regulatory asset	Scott	(1,785,051)		1,673,485	
1.27	Adjustment for 2008 Wind storm regulatory asset	Scott	(2,454,286)		2,015,183	
1.28	Adjustment for 2009 Winter storm regulatory asset	Scott	(11,447,352)		(17,115)	
1.29	Adjustment for KCCS regulatory asset	Bellar	(360,504)		244,277	
1.30	Adjustment for CMRG regulatory asset	Bellar	(1,940)			
1.31	Adjustment to reflect amortization of rate case expenses	Charnas	(595,187)		1,325,000	
1.32	Adjustment for Southwest Power Pool settlement expenses	Bellar	896,454		(896,454)	
1.33	Adjustment to remove out of period adjustment for resettlements related to MISO RSG	Scott	510,123		(510,123)	
1.34	Adjustment to reflect expiration of OMU contract	Bellar	15,673,235		(15,673,235)	
1.35	Adjustment for reversal of OMU uncollectible account expense	Scott	(1,754,505)		1,754,505	
1.36	Adjustment to remove reserve margin demand purchases	Bellar	1,339,238		(1,339,238)	
1.37	Adjustment to expenses for 2003 Ice storm amortization	Scott	527,718		(527,718)	
1.38	To adjust property tax expense	Miller	(1,199,643)			
1.39 - 1.40	These adjustments left intentionally blank	Bellar	-			
1.41	Calculation of composite Federal and Kentucky income tax rate	Miller	11,937,234			
1.42	Calculation of current tax adjustment resulting from "Interest Synchronization"	Miller	548,031			
1.43	Adjustment for prior period income tax true-ups and adjustments	Miller	(1,126,171)			
1.44	Adjustment for domestic production activities deduction	Miller	457,757			
1.45	Adjustment for tax basis depreciation reduction	Miller	(1,442,607)			
1.46	This adjustment left intentionally blank	Bellar	-			
	Subtotal before Capitalization Adjustments		(21,952,873)	-	(56,450,394)	-
	Capitalization Adjustments:					
	Trimble County Joint Use Assets Transfer	(A)	21,388,864	$ 18,053,423		$ 218,133
	Environmental Compliance Plans	(B)	(56,168,084)	(47,562,946)	541,687	(573,676)
	Investment in EEI	(C)				
	Investments in OVEC & Other	(C)				
	Total Adjustments		$ (56,732,093)	$ (29,509,523)	$ (55,908,707)	$ (355,543)

Notes:
(A) Rives Exhibit 2, Rives Exhibit 4
(B) Rives Exhibit 2, Rives Exhibit 4
(C) These adjustments were not included in the Kentucky Utilities Jurisdictional Balance Sheet and therefore do not need to be adjusted

Kentucky Utility Company
Pro-Forma Balance Sheet
Summary of Adjustments

Reference Schedule	Description	Witness	(12) Taxes Accrued	(13) Accumulated Deferred Investment Tax Credits	(14) Regulatory Liabilities	(15) Accumulated Deferred Income Taxes	(16) Liabilities and Stockholders Equity
1.00	Adjustment to eliminate unbilled revenues	Bellar					$ (3,744,529)
1.01	Adjustment to eliminate Merger Surcredit	Bellar					2,800,345
1.02	Adjustment to eliminate Value Delivery Surcredit	Bellar					42
1.03	To adjust mismatch in fuel cost recovery	Conroy					(49,848,679)
1.04	FAC roll-in	Conroy					(3,710,701)
1.05	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	$ (1,223,140)				(73,368,791)
1.06	To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	Conroy	907,774				71,531,195
1.07	Off-system sales revenue adjustment for the ECR calculation	Conroy					(3,722,927)
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott					(256,817)
1.09	To eliminate ECR, MSR, FAC, and DSM accruals	Charnas			$ (3,684,059)		(3,400,405)
1.10	To eliminate DSM revenue and expenses	Conroy					(12,940,085)
1.11	To reflect weather normalized electric sales margins	Seelye					2,986,579
1.12	Adjustment to annualize year-end customers	Seelye					9,724,872
1.13	To adjust for customer billing corrections and rate switching	Conroy					(186,358)
1.14	Adjustment to revenues for late payment charge	Bellar					3,141,664
1.15	Adjustment to reflect annualized depreciation expenses	Charnas/Bellar					(19,212,820)
1.16	Adjustment to reflect increases in labor and labor related costs	Scott	50,297				-
1.17	Adjustment for pension, post retirement, and post employment	Scott					-
1.18	Adjustment to reflect the increase in property insurance expense	Arbough					-
1.19	Adjustment to reflect new pollution liability insurance expense	Arbough					-
1.20	Adjustment for hazard tree program	Bellar					-
1.21	Adjustment to reflect normalized storm damage expense	Scott					-
1.22	Adjustment for injuries and damages FERC account 925	Charnas					-
1.23	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Charnas					-
1.24	Adjustment for expenses related to retired mainframe	Charnas					-
1.25	Adjustment for MISO Exit Fee regulatory asset	Scott			(3,689,511)		(3,605,602)
1.26	Adjustment for EKPC regulatory asset	Scott					(111,566)
1.27	Adjustment for 2008 Wind storm regulatory asset	Scott					(439,103)
1.28	Adjustment for 2009 Winter storm regulatory asset	Scott					(11,464,467)
1.29	Adjustment for KCCS regulatory asset	Bellar					(116,227)
1.30	Adjustment for CMRG regulatory asset	Bellar					(1,940)
1.31	Adjustment to reflect amortization of rate case expenses	Charnas					729,813
1.32	Adjustment for Southwest Power Pool settlement expenses	Bellar					-
1.33	Adjustment to remove out of period adjustment for resettlements related to MISO RSG	Scott					-
1.34	Adjustment to reflect expiration of OMU contract	Bellar					-
1.35	Adjustment for reversal of OMU uncollectible account expense	Scott					-
1.36	Adjustment to remove reserve margin demand purchases	Bellar					-
1.37	Adjustment to expenses for 2003 Ice storm amortization	Scott					-
1.38	To adjust property tax expense	Miller	1,199,643				-
1.39 - 1.40	These adjustments left intentionally blank	Bellar					-
1.41	Calculation of composite Federal and Kentucky income tax rate	Miller	(11,937,234)				-
1.42	Calculation of current tax adjustment resulting from "Interest Synchronization"	Miller	(548,031)				-
1.43	Adjustment for prior period income tax true-ups and adjustments	Miller	1,126,171				-
1.44	Adjustment for domestic production activities deduction	Miller	(457,757)				-
1.45	Adjustment for tax basis depreciation reduction	Miller	1,442,607				-
1.46	This adjustment left intentionally blank	Bellar					-
	Subtotal before Capitalization Adjustments		(9,439,670)	-	(7,373,570)	-	(95,216,507)
	Capitalization Adjustments:						
	Trimble County Joint Use Assets Transfer	(A)		$ 2,503,508			42,163,928
	Environmental Compliance Plans	(B)		(3,030,890)		$ (9,997,697)	(116,791,606)
	Investment in EEI	(C)					
	Investments in OVEC & Other	(C)					
	Total Adjustments		$ (9,439,670)	$ (527,382)	$ (7,373,570)	$ (9,997,697)	$ (169,844,185)

Notes:

(A) Rives Exhibit 2, Rives Exhibit 4
(B) Rives Exhibit 2, Rives Exhibit 4
(C) These adjustments were not included in the Kentucky Utilities Jurisdictional Balance Sheet and therefore do not need to be adjusted

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.

Response:

KU is proposing an adjustment to reflect the December 2009 transfer from LG&E of the TC2 Joint Use Assets. The details of this transfer are set forth in the July 30, 2009 letter to the Commission's Executive Director from Lonnie E. Bellar. A copy is attached. The net book value of the assets transferred was $48.4 million. Ms. Charnas discusses this adjustment more fully in her testimony attached to KU's application. The adjustment to capitalization associated with the Joint Use Assets LG&E transferred to KU in December 2009, is shown in column 3 of Rives Exhibit 2 and the impact on pro forma rate base is shown in column 3, page 2 of Rives Exhibit 4.

KU is also proposing an adjustment that includes a full year's depreciation expense on net plant in service, excluding depreciation on assets set up for asset retirement obligations and depreciation on ECR assets, as of October, 31, 2009, and reflects the depreciation expense of KU's portion of the TC2 generation and transmission CWIP balance at the end of the test period. These adjustments are contained in Reference Schedule 1.15 of Rives Exhibit 1. The first part of the adjustment is discussed in the testimony of Ms. Charnas; and the TC2-related portions of this adjustment are discussed in Mr. Bellar's testimony.

Thus, to the extent that either of these adjustments is viewed as a "pro forma adjustment based on plant additions" as set forth in this section of the regulation, the most recent capital construction budget for 2009 and 2010 are provided below:

Louisville Gas and Electric Company
Capital Budget
($ millions)

Description	**2009**	**2010**
Generation	$ 68.7	$ 56.6
Transmission	16.0	9.5
Distribution	96.5	108.8
Customer Service, Sales & Marketing (including Metering)	3.9	5.7
Information Technology	13.4	11.9
Other	2.4	2.7
Total	$ 200.9	$ 195.2

Kentucky Utilities Company
Capital Budget
($ millions)

Description	**2009**	**2010**
Generation	$ 395.0	$ 276.6
Transmission	39.7	49.9
Distribution	68.1	79.8
Customer Service, Sales & Marketing (including Metering)	2.5	5.0
Information Technology	14.4	12.1
Other	2.4	2.6
Total	$ 522.1	$ 426.0

E.ON U.S.

Mr. Jeff DeRouen, Executive Director
Kentucky Public Service Commission
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July 30, 2009

RE: Transfer of Joint Use Assets for Trimble County Unit No. 2 in Accordance with the Commission's November 1, 2005 Order in Case No. 2004-00507, _In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Expansion of the Trimble County Generating Station_

Dear Mr. DeRouen:

This letter is to advise the Commission of the planned transfer on the books and records of Louisville Gas & Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies") of the ownership of certain assets relating to the Trimble County Generating Station from LG&E to KU.

The Commission issued LG&E a Certificate of Public Convenience and Necessity ("CPCN") for the Trimble County Generating Station on October 19, 1978, in Case No. 7113.[1] The CPCN allowed for the installation of two 495 MW generating units, Units Number 1 ("TC1") and Number 2, to be available for operation in May 1983 and May 1985, respectively. TC1 was placed in service in December 1990 with a 495 MW net summer rating and a 566 MW

[1] *In the Matter of: Application of Louisville Gas and Electric Company for a Certificate of Public Convenience and Necessity and a Certificate of Environmental Compatibility to Proceed with the Development of a New FOUR-UNIT Electric Generating Station with a Total Capacity of 2340 MW and to Install 2 – 495 MW Coal-Fired Steam Turbine–Driven Generating Units at Trimble County Station on the Ohio River Near Bedford Kentucky*, Case No. 7113, Order (Oct. 19, 1978).

generator nameplate rating; however, the Companies ultimately allowed the original CPCN for Unit Number 2 to lapse.

When LG&E and KU merged in 1998, the Companies committed to plan and operate their generation and transmission systems on an integrated basis, including jointly dispatching their generating units. They also anticipated that future generating units might be jointly owned and that each company would be responsible for its pro rata share of each such unit's costs.[2] Subsequently, the Companies sought, and the Commission issued, a new CPCN for the construction of Trimble County Unit 2 ("TC2"),[3] now an 838 MW (generator nameplate rating) baseload unit to be located adjacent to TC1. In its order granting the CPCN, the Commission established ownership shares of 81% and 19% for KU and LG&E, respectively, for the Companies' collective 75% share of the unit. (The other 25% is owned by the Indiana Municipal Power Agency and the Illinois Municipal Electric Agency.)

A number of the assets that will be necessary to the operation of TC2 (e.g., the plant coal handling system) are currently being used only by TC1. When TC2 is complete, both units will use such assets ("Joint Use Assets"). Because KU has no ownership interest in TC1, to achieve the ownership shares in TC2 that the Commission explicitly approved in its November 1, 2005 Order in Case No. 2004-00507, LG&E will need to transfer ownership interests in the Joint Use Assets to KU. KRS 278.218 states that any transfer of utility assets valued at more than $1 million require Commission approval, which the Commission shall grant if the proposed transaction is for a proper purpose and is consistent with the public interest. In this particular circumstance, the Commission has already approved as consistent with the public convenience and necessity the 81% and 19% respective ownership shares of KU and LG&E in their collective 75% ownership interest in TC2; the transfers of ownership interests the Companies describe herein are necessary to achieve the overall ownership interests in TC2 the Commission has already approved, and therefore do not require the Commission to issue an additional order in this proceeding.

To achieve this Commission-approved division of ownership, the Companies will transfer ownership interests in the Joint Use Assets from LG&E to KU in

[2] *In the Matter of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 97-300, Order at 18-19 (Sept. 12, 1997).

[3] *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, For the Expansion of the Trimble County Generating Station*, Case No. 2004-00507, Order (Nov. 1, 2005).

accordance with the Corporate Policies and Guidelines for Intercompany Transactions ("Guidelines").

> Transfers or sales of assets will be priced at the greater of cost or fair market value for transfers or sales from LG&E or KU to LG&E Energy or other subsidiaries and at the lower of cost or fair market value for transfers or sales made to LG&E or KU from LG&E Energy or any of LG&E Energy's non-utility subsidiaries. <u>Transfers or sales of assets between LG&E and KU will be priced at cost.</u>[4]

To comply with the Guidelines in this exchange, KU will pay LG&E net book value (original cost minus accumulated depreciation) to purchase its ownership share of the Joint Use Assets. On the basis of the nameplate ratings of TC1 and TC2, the Companies have determined that to achieve respective overall ownership shares of 81% and 19% for KU and LG&E in TC2, their respective ownership shares of the Joint Use Assets must be 48% and 52%. Attachment 1 hereto is a schedule of the assets LG&E will transfer to KU and the net book value of KU's ownership share of each asset (a total as of June 2009 of $48,753,671); Attachment 2 is a site plan of the Trimble County Generating Station showing the locations of the Joint Use Assets; Attachment 3 shows sample journal entries for the ownership interest transfers LG&E will make to KU for the Joint Use Assets in December 2009, the first period in which the assets are expected to be used by both LG&E and KU as TC2 unit testing begins; and Attachment 4 shows the method by which the Companies have determined that the Joint Use Assets should be owned 52% and 48% by LG&E and KU, respectively.

In August 2009, LG&E and KU will apply to the Commission for approval of depreciation rates to use for its TC2-related assets.

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[4] Emphasis added. *See In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 97-300, Order at 39 (Sept. 12, 1997) ("LG&E, KU and each related company shall, after the merger, comply with LG&E Energy's Corporate Policies and Guidelines for Intercompany Transactions.").

If the Commission or Commission Staff have any questions or concerns about these transfers, please contact me at your first convenience.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

cc: Dennis G. Howard II, Kentucky Office of the Attorney General
Michael L. Kurtz, Kentucky Industrial Utilities Customers, Inc.

Trimble County Steam Generating Plant
Transfer of Joint Use Assets to KU
Net Book Value As of June 2009

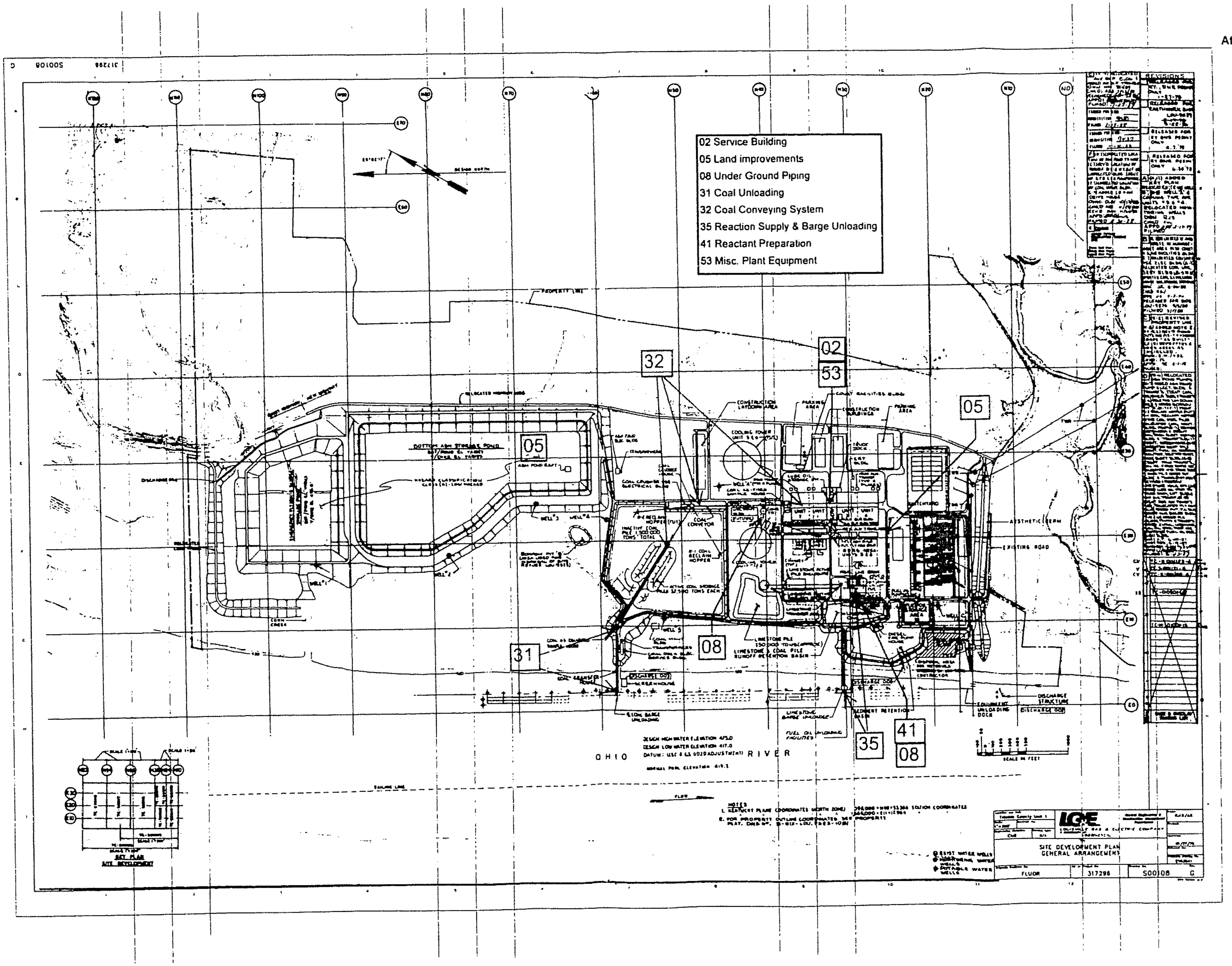
Asset	Description		KU 48% Net Book Value
01 - Unit Structure	The Unit Structure System is the structural steel and reinforced concrete skeletal frame as well as finished concrete floors of the powerhouse including the Turbine Room, Conveyor Room, Boiler Room Deaerator Room and Air Preheater Room. Covering of the building sides and roofs is included also as well as louvers, heating/ventilating, lighting, communication, grounding, fire protection, plumbing, drains and passenger/freight elevators are also a part of this system.	$	1,618,879
02 - Service Bldg	The Service Building System shall include costs for contracted labor, material and equipment and local labor, material and equipment to provide a service building facility. The Service Building System shall include the service building physical structure, the shops, offices, locker rooms and restrooms, and storage rooms, which are provided to service all units.	$	6,473,934
03 - Screenwell	The Screenwell System includes the structural steel and reinforced concrete skeletal frame of the Ohio River water intake structure for the station. This system includes all the mechanical equipment located in the screenwell structure. This includes but is not limited to various pumps, traveling screens, fixed screens, chemical treatment equipment, piping, house crane (located in the screenwell), trash rakes and other screen cleaning devices, stop log gates, and heating/ventilating equipment. The Screenwell System also includes all electrical equipment located within the screenwell structure.	$	3,923,274
04 - Structure B	The Structures B/As Fired Sample House System includes two main structures: Structure B, the north extension of the Unit 1 Conveyor Room; and Coal Conveying Structure, As Fired Sample House. Due to the particular arrangement of the coal conveying system at Trimble County Station, it was necessary to construct a portion of the Unit 2 Conveyor Room to be able to operate the coal conveying system in Unit 1. This portion of Unit 2 is known as Structure B. The System includes the structural steel and reinforced concrete skeletal frames for these two structures. Building covering of the sides and roof are also included. The heating, ventilating and air conditioning equipment, building drains, lighting, communication, grounding, and fire protection in the two structures are a part of this system.	$	1,479,471
05 - Land Improvements	This System shall include only those improvements which have a long term life, which approximates the life of the plant. Items which would be included are emergency fly ash and sludge storage pond; relocation of Corn Creek; relocation of Highway 1488; bottom ash storage pond; coal pile impoundment dikes, liners, and stacker-reclaimer fill; grading for reactant preparation, solid waste, construction shops, parking lots, equipment laydown, and conrete batch plant; undercutting for cooling towers, units, and service building; improvement fills and liners for limestone storage, and coal pile runoff, fuel oil storage; construction and plant site runoff basin; switching station fill; permanent plant roads including fill and surfacing; and aesthetic berm.	$	5,363,411

Asset	Description		Net Book Value
06 - Yard Facilities	The Yard Facilities System will include those facilities or equipment which are: inter-connections between other systems; have multi-system usage, or are not within a plant structure. Items which shall be included in the Yard Facilities System are: plant yard surfacing; underground electrical ducts; monitor wells; grounding; yard lighting; security facilities; yard drainage (including storm sewers, culverts, and ditches); diesel fire pump house; sanitary sewers (including lift and pumping stations); and fences. (see subsystem descriptions below)	$	1,992,881
07 - Above Ground Piping	This system shall include contract labor, materials, and equipment and local labor, material and equipment required to install combined plant piping-systems which are routed and supported on a common pipe rack. The ash water recycle pumps, floating ash pond pumps, platform, floating lines, power, and control shall be part of this system. Also the floating discharge lines for bottom ash, scrubber sludge, and fly ash and sludge storage pond shall be included.	$	1,414,127
08 - Under Ground Piping	This System shall include contract labor, materials and equipment, and local labor, material and equipment required to install underground pipe which runs across the plant site from one System to another. Pipe lines included in this System are the Underground Portable Water Piping Distribution Facilities, Yard Fire Protection Piping Distribution Facilities, Fuel Piping Distribution Facilities, Service Water Underground Pipe Distribution Facilities and the "Temporary" Underground Pipes west of Unit 1 and 2 Boiler Room to facilitate Unit No. 2 Construction.	$	695,609
22 - Stack	This system shall include contract labor, material, and equipment and local labor, material and equipment to install the stack. The Stack System includes the reinforced concrete base slab and column, all structural steel including ladders, and the fiberglass liner. This system also includes any concrete floors or grating and the permanent elevator is also a part of the Stack System. Mechanical equipment and piping located within the chimney are a part of this system. Electrically, all power, grounding, lighting, communications, instrumentation and control equipment, and wiring are a part of this system. This system also includes the strobe warning lights or other warning devices or system.	$	1,496,135
25 - Plant Coal Handling	The system shall be defined as including all contract labor and material, and all company labor and local material as may apply within the system boundaries' outlined as follows: 1) Fabrication and erection of coal bunkers down to outlet flange (to include load cells, seals at conveyor room floor, interior coating of top ring, etc.); 2) "G" conveyors, trippers and all coal handling equipment in conveyor room (to include dust collection equipment); 3) Silo junction house sampling equipment; 4) Fire protection system including deluge valve and all piping down stream of valve; 5) All instrument, control and electrical shall be included with the associated equipment in the respective subsystem (including 6900V, 480V, conduit and cable tray).	$	320,672
30 - Fuel Oil System	The Fuel Oil System shall include contract labor, material and equipment, and local labor, material and equipment to install the fuel oil system. The Fuel Oil System will begin at the first joint through the dike around the fuel oil tanks such as foundations for the tanks and station piping and pumps, the steel tanks, pumps and piping within the dike area to the last joint prior to going through the dike. The boundary stops at this last joint. All labor and materials are covered within the dike area. The Fuel Oil Electric Building and Fuel Oil Pump house is also included.	$	306,784

Asset	Description		Net Book Value
31 - Coal Unloading	The coal unloading system shall be defined as including contract labor material, and equipment, and local labor, material and equipment to provide coal unloading facilities within system boundaries as outlined as follows: 1) Shuttle barge equipment; 2) Barge Unloader and Coal Conveyor "A" & "B"; 3) Transfer House "B" - "C"; 4) Coal Conveyor "C"; 5) Sample House which includes vibrating feeders, conveyor "D", "as-delivered" scales, conveyor "S", barge unloader bin, and the concrete support for "E" conveyor (but not "E" conveyor or its pulley frame). (see subsystem descriptions below)	$	6,121,011
32 - Coal Conveying System	The Coal Conveying System shall be defined as including contract labor, material and equipment, and local labor, material and equipment as required to provide a stackout-to-storage and reclaim-from-storage machine, a conveyor system which shall begin with steel framework to support "E" conveyor, "F" conveyors, up to the point where the framework supporting the head pulley attaches to the plant structural steel, reclaim hoppers and tunnel, conveyor R, and R.2., magnetic separator, crusher equipment, vibrating feeders in crusher house, and crusher house. Shall also include all Instrumentation and Control and all electrical. Power feed shall be included back to the breaker terminals for 4000V equipment or to the motor starter terminals for 480V equipment. (see subsystem descriptions below)	$	4,954,731
35 - Reactant Supply & Barge Unloading	This system shall include contract labor, material and equipment and local labor, material and equipment to install reactant supply and barge unloading system. The Reactant Supply and Barge Unloading System will begin at the Barge Unloading Facilities and will end where the conveyor enters the Ball Mill pulverizer building at the Surge Hopper. It shall also include all Instrumentation and Control and all electrical. Control wiring shall be included. Power feed shall be included for 4000V equipment. (see subsystem descriptions below)	$	4,369,349
41 - Reactant Preparation	This system shall include contract labor, material and equipment and local labor, material and equipment to install the Reactant Preparation System. This system will include the Ball Mill Building, and associated equipment, Live Storage Tanks, agitators and other equipment. It shall also include all Instrumentation and Control and all electrical. Control wiring shall be included. Power feed shall be included for 4000V equipment. (see subsystem descriptions below)	$	3,307,517
50 - Station Water Treatment Facility	This system shall include contract labor, material and equipment, and local labor, material and equipment to consolidate facilities in one location for treating station waste water and water treatment. The system shall include the SWWT building and pipe, equipment, tanks, storage tanks and storage facilities, in and adjacent to the SWWT building. Facilities associated with this system will include sewage treatment, cooling tower water treatment, condensate make-up water treatment, and demineralization, associated bulk chemical storage, and SWWT compressed air facilities. Shall also include all Instrumentation and Control and all electrical	$	2,117,762
53 - Misc Plant Equipment	This system shall include contract labor, material and equipment, and local labor, material and equipment to install the following subsystems: Turbine Room Gantry Crane, Turbine Room House Crane, Electric Hoists, Station Air Compressors, and Instrument Air Compressors. It shall also include all Instrumentation and Control and all electrical. Control wiring shall be included. Power feed shall be included for 4000V or 6900V equipment or for 480V equipment.	$	987,746
61 - Circulating Water System	This system shall include contract labor, material and equipment, and local labor, material and equipment to provide the circulating water facilities. This system shall include the cooling tower, cooling tower pumps, circulating water lines, condenser, cooling tower blowdown facilities, and ash water makeup system.	$	114,750

Asset	Description		Net Book Value
71 - Station Auxiliary	This subsystem shall include contract labor, material and equipment, and local labor, material and equipment to install the reserve auxiliary transformers (including foundations and fire protection), the 138KV cable from the switching station termination to the reserve auxiliary transformers, the 6900 volt station switchgear, 6900/480 volt station transformers, 480 volt station switchgear and 480 volt station motor control centers. This includes all necessary control wiring changes internal to the switchgear, power feeds (bus duct and cable) and check-out associated with this equipment.	$	1,471,491
73 - Cable Tray & Conduit	This system shall include contract labor, material and equipment, and local labor, material and equipment to install the cable tray system in the plant and service building. Any cable tray or conduit drops to final devices (motors, boxes, etc.) shall be charged to the appropriate system and subsystem.	$	224,137
	TOTAL	$	48,753,671

Attachment 2



Sale of Trimble County Unit 1 Joint Use Assets
Sample Journal Entries

Sale of Joint Use Assets from LG&E to KU

		Debit	Credit
KU	101 Plant In Service	XX	
KU	234 Accounts Payable to Associated Companies		XX
LG&E	146 Accounts Receivable from Associated Companies	XX	
LG&E	108 Retirement Work in Progress		XX

Establishment of Asset Retirement Obligation on KUs Books as a Result of the Sale

		Debit	Credit
KU	101 Plant In Service	XX	
KU	230 Asset Retirement Obligations		XX

Retirement of Joint Use Assets from LG&E's Books as a Result of the Sale

		Debit	Credit
LG&E	108 Accumulated Provision for Depreciation	XX	
LG&E	101 Plant In Service		XX
LG&E	108 Retirement Work in Progress	XX	

Retirement of Asset Retirement Obligation from LG&E's Books as a Result of the Sale

		Debit	Credit
LG&E	108 Accumulated Provision for Depreciation	XX	
LG&E	230 Asset Retirement Obligations	XX	
LG&E	101 Plant In Service		XX
LG&E	182.3 Other Regulatory Assets		XX

Allocation of KU's and LG&E's Ownership in Trimble County Unit 2's Joint Use Assets Based on Their Ownership of the Nameplate Capacity of Both Units at the Trimble County Generating Station

	Nameplate Rating	IMEA/IMPA Share	Companies' Share	LG&E Share	KU Share
TC1 (MW)	566	141.5	424.5	424.5	0
TC2 (MW)	838	209.5	628.5	119.4	509.1
Total (MW)	1404	351	1053	543.9	509.1
Companies' Allocation of Their Combined Ownership Share				**52%**	**48%**
Total Ownership		25%	75%	**39%**	**36%**

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(c) For each proposed pro forma adjustment reflecting plant additions provide the following information:

1. *The starting date of the construction of each major component of plant;*

2. *The proposed in-service date;*

3. *The total estimated cost of construction at completion;*

4. *The amount contained in construction work in progress at the end of the test period;*

5. *A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;*

6. *The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;*

7. *An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and*

8. *The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;*

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Shannon L. Charnas

Response:

KU is proposing an adjustment to reflect the December 2009 transfer from LG&E of the TC2 Joint Use Assets. The details of this transfer are set forth in the July 30, 2009 letter to the Commission's Executive Director from Lonnie E. Bellar. A copy is attached to the response to Filing Requirement 807 KAR 5:001 Section 10(7)(b). The net book value of the assets transferred was $48.4 million. Ms. Charnas discusses this adjustment more fully in her testimony attached to KU's application. The adjustment to capitalization associated with the Joint Use Assets LG&E transferred to KU in December 2009, is shown in column 3 of Rives Exhibit 2; and the impact on pro forma rate base is shown in column 3, page 2 of Rives Exhibit 4.

KU is also proposing an adjustment that includes a full year's depreciation expense on net plant in service, excluding depreciation on assets set up for asset retirement obligations and depreciation on ECR assets, as of October, 31, 2009, and reflects the depreciation expense of KU's portion of the TC2 generation and transmission CWIP balance at the end of the test period. These adjustments are contained in Reference Schedule 1.15 of Rives Exhibit 1. The first part of the adjustment is discussed in the testimony of Ms. Charnas; and the TC2-related portions of this adjustment are discussed in Mr. Bellar's testimony.

Thus, to the extent that either of these adjustments is viewed as "reflecting pro forma adjustments based on plant additions" as set forth in this section of the regulation, the following information is provided below:

1. The major components of the plant are as follows:

   Trimble County Unit 2 Base Unit
   Trimble County Unit 2 Air Quality Control System
   Joint Use Assets
   Cooling Tower
   Transmission Lines

   Construction commenced on Trimble County Unit 2 (TC2) and the associated Air Quality Control System (AQCS) in July 2006. The majority of the Joint Use Assets were part of the original construction of Trimble County Unit 1 (TC1), which began in 1978. Construction of the remaining Joint Use Assets occurred after the construction of TC1 was complete through December 2006. The cooling tower was also part of the original construction of TC1. Construction on the LG&E transmission lines began in September 2006; and construction on the KU transmission lines began in May 2007.

2. The contracted in-service date of TC2 is June 2010. All the transmission lines associated with TC2 will be in physical operation in June 2010. The majority of the joint use assets and the cooling tower were originally placed in service with TC1 in December 1990. The remaining joint use assets were placed in service between June 1997 and June 2008.

3. As discussed above, to the extent that either of the adjustments discussed above is viewed as requiring the "[t]he total estimated cost of construction at completion" as set forth in this section of the regulation, the following information is provided:
The total estimated cost at completion by component is as follows (in thousands of $):

	LG&E	KU	Total
Trimble County Unit 2 Base Unit	$ 138,414	$499,770	$638,184
Trimble County Unit 2 AQCS	$ 43,771	$188,269	$232,040 [1]
Joint Use Assets (actual, not est.)	$(102,990)	$102,990	$ 0 [2]
Cooling Tower (actual, not est.)	$ (17,831)	$ 17,831	$ 0
Transmission Lines	$ 31,837	$ 61,849	$ 93,686

4. As discussed above, KU is proposing an adjustment that includes a full year's depreciation expense on net plant in service, excluding depreciation on assets set up for asset retirement obligations and depreciation on ECR assets, as of October, 31, 2009, and reflects the depreciation expense of KU's portion of the TC2 generation and transmission CWIP balance at the end of the test period. Construction work in progress at October 31, 2009 (in thousands of $):

[1] The costs associated with the Air Quality Control Systems at TC2 are subject to environmental surcharge recovery and are not included in the calculation of the revenue requirement in this application.
[2] The details of this transfer are set forth in the July 30, 2009 letter to the Commission's Executive Director from Lonnie E. Bellar, Vice-President, State Regulation and Rates. The net book value of the assets transferred was $48.4 million. Please see the information provided in response to 807 KAR 5:001 Section 10(7)(b).

	LG&E	KU	Total
Trimble County Unit 2 Base Unit	$118,815	$469,740	$588,555
Trimble County Unit 2 AQCS	$ 42,695	$183,676	$226,371[3]
Joint Use Assets	N/A	N/A	N/A[4]
Cooling Tower	N/A	N/A	N/A
Transmission Lines	$ 32,779	$ 54,235	$ 87,014

5. Actual plant retirements and anticipated plant retirements are not related to the pro forma adjustments discussed above. To the extent that the Commission views the plant additions including the actual or anticipated date of retirement as information that should be included on this schedule, the following information is provided: Plant retirements related to the above mentioned assets in 807 KAR 5:001 Section 10(7)(c)(1) include: 1) Three small auxiliary boilers from TC1. 2) The TC1 coal silo dust collector from the TC1 coal conveyor system. 3) Transmission assets consisting of conductor, insulators and poles. The expected retirement dates for these assets is June 2010.

6. There are no actual plant retirements and anticipated plant retirements that are related to the pro forma adjustments discussed above. To the extent that the Commission views actual plant retirements and anticipated plant retirements as information that should be included on this schedule, the following information is provided: Approximate original cost, and estimated cost of removal and salvage for plant to be retired as identified in the response to 807 KAR 5:001 Section 10 (7)(c)(5) (in thousands of $):

	LG&E	KU	Total
Original Cost:			
TC1 auxiliary boilers	$659	$0	$659
TC1 coal silo dust collector	$105	$0	$105
Transmission assets	$ 48	$8	$ 56

[3] The costs associated with the Air Quality Control Systems at TC2 are subject to environmental surcharge recovery and are not included in the calculation of the revenue requirement in this application.
[4] The details of this transfer are set forth in the July 30, 2009 letter to the Commission's Executive Director from Lonnie E. Bellar, Vice-President, State Regulation and Rates. The net book value of the assets transferred was $48.4 million. Please see the information provided in response to 807 KAR 5:001 Section 10(7)(b).

	LG&E	KU	Total
Estimated Cost of Removal:			
TC1 auxiliary boilers & coal silo dust collector	$485	$ 0	$485
Transmission assets	$ 62	$13	$ 75

There is no salvage anticipated related to these retirements.

Original cost was approximated because the assets were not originally segregated into individual components. The approximation was based on the detailed records of costs from the original construction projects.

7. Actual spending on the TC2 project through October 31, 2009 for both generation and transmission is higher than budget by $7.0 million, representing slight timing variations compared to the budget on the recording of Bechtel milestone payments. The variance to budget as a percent of the total project at October 31, 2009, for both generation and transmission, is 0.8%.

8. The impact on depreciation expense is detailed on Rives Exhibit 1, Reference Schedule Exhibit 1.15 and is discussed in the testimonies of Mr. Bellar and Ms. Charnas included with the application.

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(d)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(d) The operating budget for each period encompassing the pro forma adjustments.

Response:

See attached.

(000's)

Income Statement

	2008 Budget		2009 Budget									
	Budget 11 Nov-2008	Budget 12 Dec-2008	Budget 1 Jan-2009	Budget 2 Feb-2009	Budget 3 Mar-2009	Budget 4 Apr-2009	Budget 5 May-2009	Budget 6 Jun-2009	Budget 7 Jul-2009	Budget 8 Aug-2009	Budget 9 Sep-2009	Budget 10 Oct-2009
Revenues:												
Electric Revenues	$109,958	$122,622	$140,731	$144,959	$118,693	$112,952	$110,620	$124,986	$153,254	$151,329	$121,146	$117,234
Gas Revenues	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	109,958	122,622	140,731	144,959	118,693	112,952	110,620	124,986	153,254	151,329	121,146	117,234
Cost of Revenues:												
Fuel Electric Costs	33,806	36,762	46,614	49,204	32,940	32,853	32,322	45,107	61,009	58,335	41,589	39,346
Ash Disposal Costs	0	0	0	0	0	0	0	0	0	0	0	0
Purchased Power Costs	15,258	16,366	25,257	31,581	23,817	22,556	18,336	15,934	22,660	23,033	15,254	15,443
Transmission Expense	856	706	894	1,299	991	1,311	954	930	1,104	1,119	839	1,020
Scrubber, SCR Ammonia and Waste disposal Costs-NonLabor	563	515	425	308	366	469	1,615	1,622	1,682	1,704	1,579	547
Emissions Allowances	68	70	166	10	8	172	414	642	500	434	778	572
Total Electric Cost of Revenues	50,550	54,420	73,355	82,403	58,123	57,361	53,641	64,236	86,956	84,625	60,039	56,927
Gas Supply Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Other Cost of Sales NonLabor	0	0	0	0	0	0	0	0	0	0	0	0
Total Cost of Revenues	50,550	54,420	73,355	82,403	58,123	57,361	53,641	64,236	86,956	84,625	60,039	56,927
Gross Margin:												
Electric Margin	59,408	68,202	67,376	62,557	60,571	55,591	56,979	60,751	66,298	66,703	61,107	60,307
Gas Margin	0	0	0	0	0	0	0	0	0	0	0	0
Total Gross Margin	59,408	68,202	67,376	62,557	60,571	55,591	56,979	60,751	66,298	66,703	61,107	60,307
Operating expenses:												
Outside Services-Maintenance	3,153	3,363	2,073	4,435	4,976	4,346	4,416	3,048	2,721	2,811	2,468	5,252
Outside Services-Other	1,996	1,941	2,524	2,499	3,197	2,830	2,366	2,703	2,594	2,516	2,467	2,209
Personnel Expenses	9,240	10,650	11,576	10,830	11,801	11,620	10,916	11,684	12,121	11,641	11,981	12,562
Pension Interest Income	(277)	(319)	146	130	140	139	127	137	147	141	147	157
FAS106 Interest	357	412	(228)	(208)	(223)	(221)	(207)	(219)	(232)	(224)	(231)	(243)
Non Labor-Maintenance	1,481	1,486	1,928	2,480	2,220	2,372	2,387	1,690	1,253	1,423	1,849	2,617
Non Labor-Other	4,268	4,659	3,178	2,466	3,076	2,489	2,369	5,288	4,259	3,990	4,024	4,108
Depreciation, Amortization and Impairment	12,107	12,220	11,497	11,522	11,892	12,435	12,632	12,661	12,689	12,714	12,745	12,783
Property and other taxes	1,170	1,170	1,122	1,122	1,122	1,122	1,122	1,122	1,125	1,125	1,125	1,125
Total Operating Expenses	33,495	35,581	33,816	35,274	38,202	37,132	36,128	38,113	36,676	36,137	36,574	40,569
Operating Profit	25,913	32,621	33,560	27,283	22,369	18,460	20,850	22,638	29,622	30,567	24,532	19,737
Equity in Unconsolidated Subs	2,030	2,168	2,865	2,668	1,833	1,619	1,665	2,167	3,430	3,422	2,003	2,142
Gain on sale of Fixed Assets	0	0	0	0	0	0	0	0	0	0	0	0
Income From Investments	0	13	0	0	18	0	0	18	0	0	18	0
Other income (expense)	907	900	724	732	757	678	673	665	720	682	694	704
Total Other Income (expense)	2,938	3,081	3,589	3,400	2,607	2,297	2,338	2,850	4,150	4,105	2,715	2,846
Interest Income	20	18	19	19	18	16	17	18	18	19	18	18
I/C Interest Income	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest Income	20	18	19	19	18	16	17	18	18	19	18	18
Interest Expense	(1,034)	(1,063)	(838)	(744)	(819)	(822)	(845)	(812)	(835)	(830)	(797)	(820)
I/C Interest Exp - Non US Midwest	(5,369)	(5,369)	(5,588)	(5,588)	(5,588)	(6,011)	(6,011)	(6,011)	(6,011)	(6,011)	(6,011)	(6,011)
I/C Interest Exp - US Midwest	(300)	(371)	(46)	(123)	(238)	(72)	(130)	(167)	(173)	(173)	(206)	(139)
Interest Expense	(6,703)	(6,803)	(6,472)	(6,454)	(6,645)	(6,905)	(6,986)	(6,991)	(7,019)	(7,014)	(7,015)	(6,971)
MTM Gains	0	0	0	0	0	0	0	0	0	0	0	0
MTM (Losses)	0	0	0	0	0	0	0	0	0	0	0	0
Total MTM	0	0	0	0	0	0	0	0	0	0	0	0
Non operating Income/(Expense)	0	0	0	(269)	269	(269)	(269)	(269)	(269)	(269)	(269)	(269)
Other Non-Operating Income/(Expense)	0	0	0	(269)	269	(269)	(269)	(269)	(269)	(269)	(269)	(269)
Pretax Income (loss)	22,168	28,917	30,696	23,978	18,619	13,599	15,949	18,246	26,502	27,406	19,981	15,361
Current Tax Expense	(8,623)	(624)	(11,928)	(9,306)	4,574	(5,307)	(6,208)	3,897	(10,356)	(10,692)	2,350	(5,998)
ITC Amortization	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Tax Expense	26	(6,942)	10	10	(9,156)	10	10	(8,508)	10	10	(7,655)	10
Total Income Tax Expense (Benefit)	(8,597)	(7,566)	(11,919)	(9,296)	(4,582)	(5,297)	(6,198)	(4,611)	(10,346)	(10,682)	(5,305)	(5,988)
Income from Cont. Ops. before Minority Int. & Preferred Dividends	13,571	21,351	18,777	14,682	14,037	8,301	9,751	13,635	16,156	16,723	14,676	9,373
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Preferred Dividends	0	0	0	0	0	0	0	0	0	0	0	0
Income from Continuing Operations	13,571	21,351	18,777	14,682	14,037	8,301	9,751	13,635	16,156	16,723	14,676	9,373
Income/Loss from Discontinued Operations (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Income/Loss from Disposal of Disco Ops (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Total Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	$13,571	$21,351	$18,777	$14,682	$14,037	$8,301	$9,751	$13,635	$16,156	$16,723	$14,676	$9,373

Kentucky Utilities Company
Case No. 2009-00548
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(e)
Sponsoring Witness: W. Steven Seelye

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.

Response:

Please refer to the testimony and exhibits of W. Steven Seelye.