22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 1. Production (Ref Page: 317)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
1. PRODUCTION EXPENSES		
A. Manufactured Gas Production		
Manufactured Gas Production		
B. Natural Gas Production		
B1. Natural Gas Produciton and Gathering		
Operation		
Operation Supervision and Engineering (750)		
Production Maps and Records (751)		
Gas Well Expenses (752)		
Field Lines Expenses (753)		
Field compressor Station Expenses (754)		
Field Compressor Station Fuel and Power (755)		
Field Measuring and Regulating Station Expenses (756)		
Purification Expenses (757)		
Gas Well Royalties (758)		
Other Expenses (759)		
Rents (760)		
18. Total Operation		
Maintenance		
Maintenance Supervision and Engineering (761)		
Maintenance of Structures and Improvements (762)		
Maintenance of Producing Gas Wells (763)		
Maintenance of Field Lines (764)		
Maintenance of Field Compressor Station Equipment (765)		
Maintenance of Field Measuring and Regulating Station Equipment (766)		
Maintenance of Purification Equipment (767)		

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22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 1. Production (Ref Page: 317)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Maintenance of Drilling and Cleaning Equipment (768)		
Maintenance of Other Equipment (769)		
29. Total Maintenance		
Total Natural Gas Production and Gathering (Lines 18,29(		
B2. Products Extraction		
Operation		
Operation Supervision and Engineering (770)		
Operation Labor (771)		
Gas Shrinkage (772)		
Fuel (773)		
Power (774)		
Materials (775)		
Operation Supplies and Expenses (776)		
Gas Processed by Others (777)		
Royalties on Products Extracted (778)		
Marketing Expenses (779)		
Products Purchased for Resale (780)		
Variation in Products Inventory (781)		
(Less) Extracted Products Used by the Utility - Credit (782)		
Rents (783)		
47. Total Operation		
Maintenance		
Maintenance Supervision and Engineering (784)		
Maintenance of Structures and Improvements (785)		
Maintenance of Extraction and Refining Equipment (786)		
Maintenance of Pipe Lines (787)		
Maintenance of Extracted Products Storage Equipment (788)		

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 1. Production (Ref Page: 317)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Maintenance of Compressor Equipment (789)		
Maintenance of Gas Measuring and Regulating Equipment (790)		
Maintenance of Other Equipment (791)		
57. Total Maintenance		
58. Total Products Extraction (Lines 47 and 57)		
C. Exploration and Development		
Operation		
Delay Rentals (795)		
Nonproductive Well Drilling (796)		
Abandoned Leases (797)		
Other Exporation (798)		
65. Total Exploration and Development		
D. Other Gas Supply Expenses		
Operation		
Natural Gas Well Head Purchases (800)		
Natural Gas Well Head Purchases, Intracompany Transfers (800.1)		
Natural Gas Field Line Purchases (801)		
Natural Gas Gasoline Plant Outlet Purchases (802)		
Natural Gas Transmission Line Purchases (803)	$391,701,564.00	$264,066,702.00
Natural Gas City Gate Purchases (804)		
Liquified Natural Gas Purchases (804.1)		
Other Gas Purchases (805)		
(Less) Purchases Gas Cost Adjustments (805.1)		
77. Total Purchased Gas	$391,701,564.00	$264,066,702.00
78. Exchange Gas (806)		
Purchased Gas Expense		

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 1. Production (Ref Page: 317)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Well Expense - Purchased Gas (807.1)		
Operation of Purchased Gas Measuring Stations (807.2)		
Maintenance of PUrchased Gas Measuring Stations (807.3)		
Purchased Gas Calculations Expenses (807.4)	$28,306.00	$31,093.00
Other Purchased Gas Expenses (807.5)	$614,882.00	$607,933.00
85. Total Purchased Gas Expenses	$643,188.00	$639,026.00
Gas Withdrawn from Storage - Debit (808.1)	$96,820,314.00	$89,306,021.00
(Less) Gas Delivered to Storage (Credit) (808.2)	$131,951,496.00	$90,172,083.00
Withdrawals of Liquefied natural Gas for Processing - Debit (809.1)		
(Less) Delleveries of Natural Gas for Processing- Credit (809.2)		
Gas used in Utility Operation - Credit		
91. Gas Used for Compressor Station Fuel - Credit (810)	($845,881.00)	($874,944.00)
92..Gas Used for Products Extraction - Credit (811)		
93..Gas Used for Other Utility Operations - Credit (812)	($3,238,970.00)	($9,409,937.00)
94. Total Gas Used in Utility Operations - Credit (91-93)	($4,084,851.00)	($10,284,881.00)
95. Other Gas Supply Expenses (813)	$21,915.00	$37,436.00
97. Total Other Gas Supply Exp (77,78,85,86-89,94,95)	$353,150,634.00	$253,592,221.00
Total Production Expenses (3,30,58,65,96)	$353,150,634.00	$253,592,221.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 2. Natural Gas Storage (Ref Page: 320)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
2. NATURAL GAS STORAGE, TERMINALING AND PROCESSING EXPENSES		
A. Underground Storage Expenses		
Operation		
Operation Supervision and Engineering (814)	$481,572.00	$513,136.00
Maps and Records (815)		
Wells Expenses (816)	$127,957.00	$451,307.00
Lines Expenses (817)	$478,963.00	$556,901.00
Compressor Station Expenses (818)	$1,403,472.00	$1,119,546.00
Compressor Station Fuel and Power (819)	$798,502.00	$799,964.00
Measuring and Regulating Station Expenses (820)		
Purification Expenses (821)	$1,483,510.00	$1,488,374.00
Exploration and Development (822)		
Gas Losses (823)	$4,167,187.00	$2,515,556.00
Other Expenses (824)	$7,541.00	$8,440.00
Storage well Royalties (825)	$39,484.00	$45,556.00
Rents (826)	$37,825.00	$41,050.00
114. Total Operation	$9,026,013.00	$7,539,830.00
Maintenance		
Maintenance Supervision and Engineering (830)	$327,513.00	$330,530.00
Maintenance of Structures and Improvements (831)		
Maintenance of Reservoirs and Wells (832)	$741,927.00	$470,455.00
Maintenance of Lines (833)	$140,185.00	$91,541.00
Maintenance of Compressor Station Equipment (834)	$816,963.00	$904,999.00
Maintenance of Measuring and Regulating Station Equipment (835)	$76,836.00	$49,318.00
Maintenance of Purification Equipmetn (836)	$826,642.00	$229,877.00

Gas Operation and Maintenance - 2. Natural Gas Storage (Ref Page: 320)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Maintenance of Other Equipment (837)	$79,558.00	$90,806.00
124. Total Maintenance	$3,009,624.00	$2,167,526.00
Total Underground Storage (Lines 114 and 124)	$12,035,637.00	$9,707,356.00
B. Other Storage Expenses		
Operation		
Operation Supervision and Engineering (840)		
Operation Labor and Expenses (841)		
Rents (842)		
Fuel (842.1)		
Power (842.2)		
Gas Losses (842.3)		
134. Total Operation		
Maintenance		
Maintenance Supervision and Engineering (843.1)		
Maintenance of Structures and Improvements (843.2)		
Maintenance of Gas Holders (843.3)		
Maintenance of Purification Equipment (843.4)		
Maintenance of Liquefaction Equipment (843.5)		
Maintenance of Vaporizing Equipment (843.6)		
Maintenance of Compressor Equipment (843.7)		
Maintenance of Measuring and Regulating Equipment (843.8)		
Maintenance of Other Equipment (843.9)		
145. TOTAL Maintenance		
Total Other Storage Expenses (Lines 134 and 145)		
C. Liquefied Natural Gas Terminaling and Processing Expenses		
Operation		
Operation Supervision and Engineering (844.1)		

Gas Operation and Maintenance - 2. Natural Gas Storage (Ref Page: 320)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
LNG Processing Terminal Labor and Expenses (844.2)		
Liquefaction Processing Labor and Expenses (844.3)		
Liquefaction Transportaion Labor and Expenses (844.4)		
Measuring and Regulating Labor and Expenses (844.5)		
Compressor Station Labor and Expenses (544.6)		
Communication System Expenses (844.7)		
System Control and Load Dispatching (844.8)		
Fuel (845.1)		
Power (845.2)		
Rents (845.3)		
Demurrage Charges (845.4)		
(Less) Wharfage Receipts - Credit (845.5)		
Processing Liquefied or Vaporized Gas by Others (845.6)		
Gas Losses (846.1)		
Other Expenses (846.2)		
Total Operation		
Maintenance		
Maintenance Supervision and Engineering (847.1)		
Maintenance of Structures and Improvements (847.2)		
Maintenance of LNG Processing Terminal equipment (847.3)		
Maintenance of LNG Transportation Equipment (847.4)		
Maintenance of Measuring and Regulating Equipment (847.5)		
Maintenance of Compressor Station Equipment (847.6)		
Maintenance of Communication Equipment (847.7)		
Maintenance of Other Equipment (847.8)		
175. Total Maintenance		

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 2. Natural Gas Storage (Ref Page: 320)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
176. Total Liquiefied Nat Gas Terminaling and Proc Exp (Lines 165 and 175)		
177. Total Natural Gas Storage (Lines 125,146 and 176)	$12,035,637.00	$9,707,356.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 3 through 8 (Ref Page: 323)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
3. TRANSMISSION EXPENSES		
Operation		
Operation Supervision and Engineering (850)	$19,395.00	$4,418.00
System Control and Load Dispatching (851)	$252,926.00	$266,246.00
Communication System Expenses (852)		
Compressor Station labor and Expenses (853)		
Gas for Compressor Station Fuel (854)		
Other Fuel and Power for Compressor Stations (855)		
Mains Expenses (856)	$254,529.00	$340,205.00
Measuring and Regulating Stations Expenses (857)		
Transmission and Compression of Gas by Others (858)		
Other Expenses (859)		
Rents (860)	$6,484.00	$5,232.00
191. Total Operation	$533,334.00	$616,101.00
Maintenance		
Maintenance Supervision and Engineering (861)		
Maintenance of Structures and Improvements (862)		
Maintenance of Mains (863)	$755,101.00	$649,692.00
Maintenance of Compressor Station Equipment (864)		
Maintenance of Measuring and Regulating Station Equipment (865)		
Maintenance of Communication Equipment (866)		
Maintenance of Other Equipment (867)		
200. Total Maintenance	$755,101.00	$649,692.00
201. Total Transmission Expenses (Total 191 and 200)	$1,288,435.00	$1,265,793.00
4. DISTRIBUTION EXPENSES		
Operation		

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 3 through 8 (Ref Page: 323)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Operation Supervision and Engineering (870)		
Distribution Load Dispatching (871)	$352,916.00	$365,534.00
Compressor Station Labor and Expenses (872)		
Compressor Station Fuel and Power (873)		
Mains and Services Expenses (874)	$3,483,039.00	$3,044,727.00
Measuring and Regulating station Expenses - General (875)	$675,477.00	$616,389.00
Measuring and Regulating Station Expenses - Industrial (876)	$275,412.00	$315,384.00
Measuring and Regulating Station Expenses - City Gas Check Station (877)	$198,439.00	$137,312.00
Meter and House Regulator Expenses (878)	$81,239.00	$24,985.00
Customer Installations Expenses (879)	$334,813.00	$200,748.00
Other Expenses (880)	$3,047,863.00	$3,069,139.00
Rents (881)	$9,517.00	$9,799.00
216. Total Operation	$8,458,715.00	$7,784,017.00
Maintenance		
Maintenance Supervision and Engineering (885)		
Maintenance of Structures and Improvements (886)	$564,984.00	$522,008.00
Maintenance of Mains (887)	$7,722,184.00	$5,710,328.00
Maintenance of Compressor Station Equipment (888)		
Maintenance of Measuring and Regulating Station Equipment - General (889)	$71,177.00	$50,232.00
Maintenance of Measuring and Regulating Station Equipment - Industrial (890)	$111,940.00	$116,326.00
Maintenance of Measuring and Regulating Station Equipment - City Gate Check Station (891)	$288,993.00	$260,903.00
Maintenance of Services (892)	$1,715,334.00	$1,826,235.00
Maintenance of Meters and House Regulators (893)		
Maintenance of Other Equipment (894)	$300,706.00	$233,047.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 3 through 8 (Ref Page: 323)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
228. Total Maintenance	$10,775,318.00	$8,719,079.00
229. Total Distribution Expenses (Lines 216 and 228)	$19,234,033.00	$16,503,096.00
5. CUSTOMER ACCOUNTS EXPENSES		
Operation		
Supervision (901)	$546,201.00	$542,015.00
Meter Reading Expenses (902)	$1,664,737.00	$1,624,959.00
Customer Records and Collections Expenses (903)	$3,785,311.00	$3,801,261.00
Uncollectible Accounts (904)	$1,814,221.00	$870,284.00
Miscellaneous Customer Accounst Expenses (905)	$228,587.00	$134,333.00
237. Total Customer Accounts Expenses	$8,039,057.00	$6,972,852.00
6. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES		
Operation		
Supervision (907)	$60,285.00	$75,792.00
Customer Assistance Expenses (908)	$467,010.00	$2,225,652.00
Informational and Instructional Expenses (909)	$47,763.00	$199,308.00
Miscellaneous Customer Service and Informational Expenses (910)	$569,717.00	$335,702.00
244. Total Customer Service and Informational Expenses	$1,144,775.00	$2,836,454.00
7. SALES EXPENSES		
Operation		
Supervision (911)		
Demonstrating and Selling Expenses (912)		
Advertising Expenses (913)	$17,793.00	$24,142.00
Miscellaneous Sales Expenses (916)		
251. TOTAL Sales Expenses	$17,793.00	$24,142.00
8. ADMINISTRATIVE AND GENERAL EXPENSES		
Operation		

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Operation and Maintenance - 3 through 8 (Ref Page: 323)

	Amt for Current Yr (b)	Amt for Prev Yr (c)
Administrative and General Salaries (920)	$3,317,523.00	$3,500,640.00
Office Supplies and Expenses (921)	$1,394,945.00	$1,659,355.00
(Less) Administrative Expenses Transferred - Credit (922)	$429,172.00	$259,338.00
Outside Services Employed (923)	$1,238,252.00	$2,044,896.00
Property Insurance (924)	$158,919.00	$213,088.00
Injuries and Damanges (925)	$412,851.00	$344,007.00
Employee Pensions and benefits (926)	$5,579,994.00	$5,208,388.00
Franchise Requirements (927)	$533,593.00	$513,286.00
Regulatory Commission Expenses (928)	$0.00	$78,843.00
(Less) Duplicate Charges - Credit (929)	$870,912.00	$794,591.00
General Advertising Expenses (930.1)	$123,312.00	$91,424.00
Miscellaneous General Expenses (930.2)	$254,076.00	$181,116.00
Rents (931)	$357,093.00	$351,839.00
267. Total Operation	$12,070,474.00	$13,132,953.00
Maintenance		
269. Maintenance of General Plant (935)	$2,324,989.00	$1,777,335.00
270. Total Administrative and General (Total 267 and 269)	$14,395,463.00	$14,910,288.00
Total Gas O and M Expenses (Total Lines 97,177,201,229,237,244,251 and 270)	$409,305,827.00	$305,812,202.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Exchange and Imbalance Transactions (Ref Page: 328)

	Zone/Rate Schedule	Gas Received Amount (b)	Gas Received MCF (c)	Gas Delivered Amount (d)	Gas Delivered MCF (e)
		$0.00	0	$0.00	0
Total					

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Gas Used in Utility Operations (Ref Page: 331)

Purpose (a)	Acct Charged (b)	Natural Gas Used MCF (c)	Natural Gas Amount of Credit (d)	Manufactured Gas MCF (e)	Manufactured Gas Amount of Credit (f)
Gas Used for Compressor Station Fuel - Credit (810)	819/834	116,115	$845,881.00	0	$0.00
Gas Used For Products Extration - Credit (811)					
Gas Shrinkage and Other Usage in Respondent's Own Processing					
Gas Shrinkage, etc. for Respondent's Gas Processed by Others					
Gas Used for Other Utility Operations - Credit (812)					
(Report seperately each principal use. Group minor uses.)					
City Gate Stations	877	12,561	$101,609.00	0	$0.00
Gas Used for Ignition & Stab @ Elec Gen Stations	501	262,870	$2,863,504.00	0	$0.00
Gas Used In Electric Generation	547	15,568	$145,580.00	0	$0.00
Various	Various	16,349	$128,277.00	0	$0.00
Total		423,463	$4,084,851.00	0	$0.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Transmission and Compression of Gas by Others (858) (Ref Page: 332)

Name of Company and Descript	(b)	Amount of Payment (c)	MCF of Gas (d)
		$0.00	0

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Other Gas Supply Expenses (813) (Ref Page: 334)

Description (a)	Amount (b)
MISC GAS SUPPLY LABOR, TRANSPORTATION & OTHER EXP	$21,915.00
Total	$21,915.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Miscellaneous General Expenses (Acct 930.2) (Ref Page: 335)

Description	Amount
Industry association dues	$128,126.00
Experimental and general research expenses.	
a. Gas Research Institute (GRI)	
b. Other	$65,508.00
Publishing and distributing information and reports to stockholders, trustee, registrar and transfer agent fees and expenses and other expenses	
Other	
Amortization of Manufactured Gas Plant	$60,979.00
Miscellaneous	($537.00)
Total	$254,076.00

Note:
The credit balance is due to a tax refund.

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Depreciation, Depletion and Amortization of Gas Plant (403,403.1,404.1,404.2,404.3,405) (Ref Page: 336)

	Depreciation 403 (b)	Depreciation Exp	404.1 (d)	404.2 (e)	404.3 (f)	405 (g)	Total (h)
Intangible Plant							
Production Plant, manufactured gas							
Production and gathering plant, natural gas							
Products extraction plant							
Underground gas storage plant	$1,454,271.00	$8,161.00	$0.00	$0.00	$0.00	$0.00	$1,462,432.00
Other storage plant							
Base load LNG terminaling and processing plant							
Transmission plant	$216,752.00	$0.00	$0.00	$0.00	$0.00	$0.00	$216,752.00
Distribution plant	$14,249,029.00	$898.00	$0.00	$0.00	$0.00	$0.00	$14,249,927.00
General Plant	$161,430.00	$0.00	$0.00	$0.00	$0.00	$0.00	$161,430.00
Common plant - gas	$2,058,850.00	$9.00	$0.00	$0.00	$1,528,904.00	$0.00	$3,587,763.00
Other							
Total	$18,140,332.00	$9,068.00	$0.00	$0.00	$1,528,904.00	$0.00	$19,678,304.00

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Depreciation, Depletion and Amortization of Gas Plant (cont) (Ref Page: 338)

	Functional Classification (a)	Plant Bases (thousands) (b)	Applied Depr. or Amort Rates (c)
Production and Gathering Plant			
Offshore			
Onshore			
	Underground Gas Storage Plant	63,664	2
Underground Gas Storage Plant			
Transmission Plant			
Offshore			
Onshore			
	Onshore	12,902	2
General Plant			
	General Plant	4,690	4
	Distribution Plant	511,267	3

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Particulars Concerning Cetrain Income Deductions and Interest Charges Accounts (Ref Page: 340)

Item (a)	Amount (b)
Account 426.1-Donations	$0.00
University of Kentucky-Solar Decathlon Team	$250,000.00
Various	$760,398.00
Total Acount 426.1	$1,010,398.00
Account 426.3- Penalties	$172,173.00
Total Account 426.3	$172,173.00
Account 426.4-Civic,Political and Related Activity	$0.00
Related Activites	$674,416.00
Total Account 426.4	$674,416.00
Account 426.5- Other Deductions	$0.00
Interest Rate Swap Mark-to-Market	$34,595,707.00
Hedge Ineffectiveness Interest Rate Swap	$9,017,816.00
Various	$1,910,274.00
Total Account 426.5	$45,523,797.00
Account 430-Interest on Debt to Associated Company	$0.00
E.ON U.S. LLC	$5,866,903.00
Kentucky Utilites Company	$364,173.00
Fidelia	$22,873,050.00
Total Account 430	$29,104,126.00
Account 431- Other Interest Expense	$0.00
Interest on Tax Deficiencies	($2,110.00)
Customer Deposits- 6% Interest Rate	$1,079,395.00
DSM Cost Recovery	$41,679.00
Financial Liabilities	$1,199,138.00
Other	$93,281.00
Total Account 431	$2,411,383.00

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Regulatory Commission Expenses (928) (Ref Page: 350)

Description (a)	Assessed by Reg Commission (b)	Expenses of the Utility (c)	Total Expenses (d)	Deferred in 182.3 Beg of Yr (e)	Expenses Incurred Charged to Department
Federal Energy Regulatory Commission	$0.00	$0.00	$0.00	$0.00	
Annual Charge	$626,967.00	$0.00	$626,967.00	$0.00	Electric
Administrative Charge, Project #289	$131,066.00	$0.00	$131,066.00	$0.00	Electric
Kentucky Public Service Commission	$0.00	$0.00	$0.00	$0.00	
2008 Rate Case - Electric	$0.00	$0.00	$0.00	$0.00	Electric
2008 Rate Case - Gas	$0.00	$0.00	$0.00	$0.00	Gas
	$758,033.00	$0.00	$758,033.00	$0.00	

22200500 Louisville Gas and Electric Company 01/01/2008 - 12/31/2008

Regulatory Commission Expenses (928) (Ref Page: 350) (Part Two)

Description (a)	Expenses Incurred Charged to Acct (g)	Expenses Incurred Charged to Amount	Expenses Incurred Deferred to 182.3 (i)	Amortized Contra Acct (j)	Amortized Amt (k)	Deferred in 182.3 End of Yr (l)
Federal Energy Regulatory Commission		$0.00	$0.00		$0.00	$0.00
Annual Charge	928	$626,967.00	$0.00		$0.00	$0.00
Administrative Charge, Project #289	928	$131,066.00	$0.00		$0.00	$0.00
Kentucky Public Service Commission		$0.00	$0.00		$0.00	$0.00
2008 Rate Case - Electric	186	$649,936.00	$0.00		$0.00	$0.00
2008 Rate Case - Gas	186	$217,020.00	$0.00		$0.00	$0.00
		$1,624,989.00	$0.00		$0.00	$0.00

Note:
Rate Case expenses incurred in Kentucky Public Service Commission (KPSC) Case Nos. 2008-00252 and 2007-00564 will be amortized over 3 years beginning March 2009, by Order of the KPSC dated February 5, 2009.

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Distribution of Salaries and Wages - Electric (Ref Page: 355)

Specify	Direct Payroll (b)	Alloc Clearing Accts (c)	Total (d)
Electric			
Operation			
3. Production	$21,204,286.00	$5,044,088.00	$26,248,374.00
4. Transmission	$1,795,841.00	$500,232.00	$2,296,073.00
5. Distribution	$4,930,874.00	$1,912,020.00	$6,842,894.00
6. Customer Accounts	$2,668,667.00	$750,424.00	$3,419,091.00
7. Customer Service and Informational	$311,578.00	$93,276.00	$404,854.00
8. Sales			
9. Administrative and General	$9,951,678.00	$2,165,459.00	$12,117,137.00
10. Total Operation	$40,862,924.00	$10,465,499.00	$51,328,423.00
Maintenance			
12. Production	$10,137,910.00	$2,385,661.00	$12,523,571.00
13. Transmission	$389,071.00	$79,848.00	$468,919.00
14. Distribution	$3,788,421.00	$619,807.00	$4,408,228.00
15. Administrative and General	$2,137,228.00	$614,992.00	$2,752,220.00
16. Total Maint	$16,452,630.00	$3,700,308.00	$20,152,938.00
Total Operation and Maintenance			
18. Total Production (Lines 3 and 12)	$31,342,196.00	$7,429,749.00	$38,771,945.00
19. Total Transmission (Lines 4 and 13)	$2,184,912.00	$580,080.00	$2,764,992.00
20. Total Distribution (Lines 5 and 14)	$8,719,295.00	$2,531,827.00	$11,251,122.00
21. Customer Accounts (Transcribe from Line 6)	$2,668,667.00	$750,423.00	$3,419,090.00
22. Customer Service and Informational (Transcribe from Line 7)	$311,578.00	$93,276.00	$404,854.00
23. Sales (Transcribe from Line 8)			
24. Administrative and Generall (Lines 9 and 15)	$12,088,906.00	$2,780,451.00	$14,869,357.00

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Distribution of Salaries and Wages - Electric (Ref Page: 355)

Specify	Direct Payroll (b)	Alloc Clearing Accts (c)	Total (d)
25. Total Oper. and Maint. (Lines 18-24)	$57,315,554.00	$14,165,806.00	$71,481,360.00

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Distribution of Salaries and Wages - Gas (Ref Page: 355)

Specify	Direct Payroll (b)	Alloc Clearing Accts (c)	Total (d)
Gas			
Operation			
28. Production -- Manufactured Gas			
29. Production -- Nat. Gas (Including Expl and Dev.)			
20. Other Gas Supply	$481,304.00	$128,082.00	$609,386.00
31. Storage, LNG Terminaling and Processing	$1,385,232.00	$336,140.00	$1,721,372.00
32. Transmission	$357,766.00	$89,608.00	$447,374.00
33. Distribution	$2,842,987.00	$711,530.00	$3,554,517.00
34. Customer Accounts	$2,175,749.00	$611,938.00	$2,787,688.00
35. Customer Service and Informational	$134,735.00	$39,796.00	$174,530.00
36. Sales			
37. Administrative and General	$2,528,557.00	$445,406.00	$2,973,963.00
38. Total Operation	$9,906,330.00	$2,362,500.00	$12,268,830.00
Maintenance			
40. Production -- Manufactured Gas			
41. Production -- Natural Gas			
42. Other Gas Supply			
43. Storage, LNG Terminaling and Processing	$1,149,737.00	$279,639.00	$1,429,376.00
44. Transmission	$148,300.00	$35,821.00	$184,121.00
45. Distribution	$3,791,079.00	$859,685.00	$4,650,764.00
46. Administrative and General	$745,617.00	$214,814.00	$960,431.00
47. Total Maint	$5,834,733.00	$1,389,959.00	$7,224,692.00
Total Operation and Maintenance			

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Distribution of Salaries and Wages - Gas (Ref Page: 355)

Specify	Direct Payroll (b)	Alloc Clearing Accts (c)	Total (d)
50. Total Production -- Manufactured Gas (Lines 28 and 40)			
51. Total Production -- Natural Gas (Lines 29 and 41)			
52. Total Other Gas Supply (Lines 30 and 42)	$481,304.00	$128,082.00	$609,386.00
53. Total Storage LNG Terminaling and Processing (Lines 31 and 43)	$2,534,969.00	$615,779.00	$3,150,748.00
54. Total Transmission (Lines 32 and 44)	$506,066.00	$125,429.00	$631,495.00
55. Total Distribution (Lines 33 and 45)	$6,634,066.00	$1,571,215.00	$8,205,281.00
56. Customer Accounts (Transcribe Line 34)	$2,175,749.00	$611,938.00	$2,787,688.00
57. Customer Service and Informational (Transcribe Line 35)	$134,735.00	$39,796.00	$174,530.00
58. Sales (Transcribe Line 36)			
59. Administrative and General (Line 37 + 46)	$3,274,174.00	$660,220.00	$3,934,394.00
60. Total Operation and Maint (Lines 50-59)	$15,741,063.00	$3,752,459.00	$19,493,522.00
Other Utility Departments			
62. Operation and Maintenance			
63. Total All Utility Dept (Lines 25,60,62)	$73,056,617.00	$17,918,265.00	$90,974,882.00

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Distribution of Salaries and Wages - Utility Plant (Ref Page: 356)

	Specify	Direct Payroll (b)	Alloc Clearing Accts (c)	Total (d)
Utility Plant				
Construction (By Utility Departments)				
66. Electric Plant		$5,673,742.00	$6,669,218.00	$12,342,960.00
67. Gas Plant		$2,370,011.00	$3,143,140.00	$5,513,151.00
68. Other	Common Utility Plant	$3,172,874.00	$924,421.00	$4,097,295.00
69. Total Construction		$11,216,627.00	$10,736,779.00	$21,953,406.00
70. Plant Removal (By Utility Departments)				
71. Electric Plant		$657,922.00	$506,249.00	$1,164,171.00
72. Gas Plant		$187,880.00	$122,098.00	$309,978.00
73. Other	Common Utility Plant	$945.00	$281.00	$1,226.00
74. Total Plant Removal		$846,747.00	$628,628.00	$1,475,375.00
75. Other Accounts				
	Accounts Receivable (work done for others)	$5,354,535.00	$1,509,758.00	$6,864,293.00
	Miscellaneous Deferred Debits & Preliminary Survey	$327,500.00	$86,630.00	$414,130.00
	Regulatory Asset	$3,410,988.00	$0.00	$3,410,988.00
	Certain Civic Political & Related Activities & Oth	$692,569.00	$179,782.00	$872,351.00
	Accts Receivable (Non-jurisdictional-Trimble Co)	$1,153,939.00	($3,020.00)	$1,150,919.00
76. Total Other Accounts		$10,939,531.00	$1,773,150.00	$12,712,681.00
77. Total Salaries and Wages		$96,059,522.00	$31,056,822.00	$127,116,344.00

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Charges for Outside Professional and Other Consultative Services (Ref Page: 358)

Description (a)	(b)	Amount (2)
Accenture LLP		$15,461,372.00
ACCU Read Services		$3,354,208.00
Ajilon Professional Staffing Inc		$268,792.00
Baker Hughes Business Support Services		$556,441.00
Central Locating Service LTD		$946,058.00
Ecken Technical Services		$252,248.00
Energy Economics Inc		$2,792,139.00
Fishel Co		$718,552.00
Four Sight Corporation		$283,583.00
J Y Legner Associates Inc		$458,682.00
JP Morgan Chase Bank		$336,331.00
KForce Inc		$304,206.00
McJunkin Red Man Corporation		$422,070.00
Miller Pipeline Corp		$12,147,909.00
Motorola		$654,233.00
Neptune Technology Group Inc		$258,400.00
Off Duty Police Services Inc		$560,058.00
OPS Plus Inc		$273,244.00
PowerPlan Consultants Inc		$298,337.00
Practical Solutions		$768,348.00
Risk Management Services Corporation		$309,356.00
Robert E Lamb Inc		$2,081,542.00
SAMAC Painting Inc		$302,388.00
SAP America Inc		$1,799,665.00
Schmidt Consulting Services Inc		$541,950.00
Southern Cross Corp		$761,103.00
Southern Pipeline Const Co		$3,687,149.00

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Charges for Outside Professional and Other Consultative Services (Ref Page: 358)

Description (a)	(b)	Amount (2)
Stoll Construction and Paving Co Inc		$1,619,278.00
Submar Inc		$391,265.00
TEK Systems		$330,262.00
Todays Office Professionals		$764,288.00
Ventyx Inc		$316,838.00
Xerox Corp		$755,821.00
Total		$54,776,116.00

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Compressor Stations (Ref Page: 508)

Name of Station and		Number of Units (b)	Certified Horsepower (c)	Plant Cost (d)	Fuel or Power (e)	Fuel or Power Type
Magnolia	Magnolia, Ky.	6	8,010	$10,515,044.00	$798,502.00	
Muldraugh	Muldraugh, Ky.	9	9,540	$17,993,559.00	$47,379.00	
		0	0	$0.00	$0.00	

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Compressor Stations (Ref Page: 508) (Part Two)

Name of Station and		Other (i)	Gas for Comp Fuel MCF	Total Comp Hours	Comp operating at Time	Date of Station Peak (l)
Magnolia	Magnolia, Ky.	$1,543,888.00	109,635	10,312	6	12/16/2008
Muldraugh	Muldraugh, Ky.	$2,153,511.00	6,480	508	0	02/10/2008
		$0.00	0	0	0	

Gas Storage Projects (Ref Page: 512)

	Gas Belonging to Respondent MCF (b)	Gas Belonging to Others MCF (c)	Total MCF (d)
Storage Operations (in MCF)			
Gas Delivered to Storage			
January	8,089	0	8,089
February	42,607	0	42,607
March	0	0	0
April	0	0	0
May	0	0	0
June	1,616,782	0	1,616,782
July	2,895,693	0	2,895,693
August	2,912,887	0	2,912,887
September	2,701,640	0	2,701,640
October	1,987,021	0	1,987,021
November	170,646	0	170,646
December	145,234	0	145,234
Total	12,480,599	0	12,480,599
Gas Withdrawn from Storage			
January	3,315,463	0	3,315,463
February	2,729,438	0	2,729,438
March	1,923,034	0	1,923,034
April	947,762	0	947,762
May	103,443	0	103,443
June	537	0	537
July	356	0	356
August	375	0	375
September	520	0	520
October	654	0	654
November	788,995	0	788,995

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Gas Storage Projects (Ref Page: 512)

	Gas Belonging to Respondent MCF (b)	Gas Belonging to Others MCF (c)	Total MCF (d)
December	2,348,926	0	2,348,926
Total	12,159,503	0	12,159,503

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Gas Storage Projects (cont) (Ref Page: 513)

	Total Amount (b)	Date
Storage Operations		
Top or Working Gas End of Year	11,130,841	
Cushion Gas (Including native gas)	10,810,000	
Total Gas in Reservoir	21,940,841	
Certified Storage Capacity	25,900,000	
Number of Injection - Withdrawal Wells	376	
Number of Obsevation Wells	148	
Maximum Days Withdrawal from Storage	172,340	
Date of Maximum Days Withdrawal	01/02/2008	
LNG Terminal Companies (MCF)	0	
Number of Tanks	0	
Capacity of Tanks	0	
LNG Volume	0	
Received at Ship Rail	0	
Transferred to Tanks	0	
Withdrawn from Tanks	0	
Boil Off Vaporization Loss	0	

Note:
'Cushion Gas' includes noncurrent base gas of 2,930,000 Mcf (Account 117).

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Transmission Lines (Ref Page: 514)

Designation of Line or Group of Lines (a)	(b)	Total Miles of Pipe (c)
Western Kentucky Line		49
Magnolia Line		122
Calvary Line		57
Elder Park Line		28

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Transmission System Peak Deliveries (Ref Page: 518)

Description		MCF Gas to Interstate Pipelines (b)	MCF Gas to Others (c)	Total (d)
Section A: Single Day Peak Deliveries				
Date	January 15, 2009			
Volumes of Gas Transported				
No-Notice Transportation		0	141,000	141,000
Other Firm Transportation		0	59,000	59,000
Interruptible Transportation		0	0	0
Other (Describe)				
	End-Use Transport	0	74,000	74,000
Total		0	274,000	274,000
Volumes of gas Withdrawn form Storage under Storage Contracts				
No-Notice Storage		0	34,000	34,000
Other Firm Storage		0	0	0
Interruptible Storage		0	0	0
Other (Describe)				
	On-System Storage	0	0	0
Total		0	34,000	34,000
Other Operational Activities				
Gas Withdrawn from Storage for System Operations		0	176,000	176,000
Reduction in Line Pack		0	0	0
Other (Describe)				
Total		0	176,000	176,000
Section B: Consecutive Three-Day Peak Deliveries				
Dates:	January 14, 15, 16, 2009			
Volumes of Gas Transported				

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Transmission System Peak Deliveries (Ref Page: 518)

Description	MCF Gas to Interstate Pipelines (b)	MCF Gas to Others (c)	Total (d)
No-Notice Transportation	0	424,000	424,000
Other Firm Transportation	0	178,000	178,000
Interruptible Transportation	0	0	0
Other (Describe)			
End-Use Transport	0	206,000	206,000
Total	0	808,000	808,000
Volumes of Gas Withdrawn from Storage under Storage Contacts			
No-Notice Storage	0	78,000	78,000
Other Firm Storage	0	0	0
Interruptible Storage	0	0	0
Other (Describe)			
Total	0	78,000	78,000
Other Operational Activities			
Gas Withdrawn from Storage for System Operations	0	403,000	403,000
Reduction in Line Pack	0	0	0
Other (Describe)			
Total	0	403,000	403,000

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Auxiliary Peaking Facilities (Ref Page: 519)

Location (a)	Type (b)	Max Daily Delivery Capacity MCF (c)	Cost of Facility (d)	Operation on Date Highest Trans Peak Delivery (yes/no)
Muldraugh - Meade County, Ky	Underground Storage	220,000	$21,216,722.00	yes
Doe Run - Meade Co., Ky & Harrison Co., Ind.	Underground Storage	53,903	$7,343,188.00	yes
Magnolia - Green, Hart and Larue Counties, Ky	Underground Storage	51,796	$26,745,908.00	yes
Center - Metcalfe, Green and Barren Counties, Ky	Underground Storage	10,953	$7,381,535.00	yes
Canmer - Hart and Green Counties, Ky		0	$258,996.00	
Flint Hill - Hardin county, Ky		0	$273,275.00	
TOTAL		336,652	$63,219,624.00	

Note:
Gas fields at Canmer and Flint Hill have been retired. These facilities are currently used in other gas-system operations.

Total - Due to pipeline and compressor capacity and multiple fields discharging into one pipeline, overall system deliverability has been estimated at this figure, even though individual fields may have greater deliverability than shown, and may aggregate to a higher total, especially earlier in the season, when operated independently.

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Gas Account - Natural Gas (Ref Page: 520)

Description	Amt MCF
GAS RECEIVED	
Gas Purchases (800-805)	37,809,294
Gas of Others received for Gathering (ref pg 303) (489.1)	
Gas of Others Received for Transmission (Ref pg 305) (489.2)	
Gas of Others Received for Distrubution (ref pg 301) (489.3)	11,582,742
Gas of Others Received for Contract Storage (Ref Pg 307) (489.4)	
Exchanged Gas Received from Others (Ref Pg 328) (806)	
Gas Received as Imbalances (Ref Pg 328) (806)	
Receipts of Respondent's Gas Transported by Others (Ref pg 332) (858)	
Other Gas Withdrawn from Storage (Explain)	0
Gas Received from Shippers as Compressor Station Fuel	
Gas Received from Shippers as Lost and Unaccounted for	
Other Reciepts (Specify)	
	0
Total Receipts	49,392,036
GAS DELIVERED	
Gas Sales (480-484)	35,079,418
Deliveries of gas Gathered for Others (Ref pg 303) (489.1)	
Deliveries of Gas Transported for Others (Ref Pg 305) (489.2)	51,147
Deliveries of Gas Distributed for Others (Ref Pg 301) (489.3)	11,313,955
Deliveries of Contract Storage gas (Ref Pg 307) (489.4)	
Exchange Gas Delivered to Others (Ref Pg 328) (806)	
Gas Delivered as Imbalances (Ref Pg 328) (806)	
Deliveries of Gas to Others for Transportation (Ref Pg 332) (858)	
Other Gas Delivered to Storage (Explain)	321,096

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Gas Account - Natural Gas (Ref Page: 520)

Description	Amt MCF
Gas Used for Compressor Station Fuel (509)	116,115
Other Deliveries (Specify)	
Duplicate Charges (Gas Department)	118,283
Gas Used for Other Utility Operations	307,348
28. Total Deliveries	47,307,362
GAS UNACCOUNTED FOR	
Production System Losses	
Gathering System Losses	
Transmission System Losses	
Distribution System Losses	
Storage System Losses	443,255
Other Losses (Specify)	
Sales and Transport	1,832,313
36. Total Unaccounted For	2,275,568
Total Deliveries and Unaccounted For For (Line 28 and 36)	49,582,930

Note:
Other Gas Delivered to Storage represents net deliveries of gas to storage recorded in account 808.1, Gas withdrawn from storage-Debit, and account 808.2, Gas delivered to storage-Credit.

CheckList

Item	Value 1	Value 2	Agree	Explain
Balance Sheet (Ref pg 110)				
Utility Plant agrees with Sched Summary of Utility Plant (Ref pg 200) Line 13. Total Utility Plant less Line 11. Construction Work In Progress	4130302167.00	4130302167.00	OK	
Line 3. Construction Work In Progress agrees with Sched Summary of Utility Plant (Ref pg 200) Line 11. Construction Work In Progress	374023200.00	374023200.00	OK	
Line 5. Accum. Prov for Depr and Amort Depl agrees with Sched Summary of Utility Plant (Ref Pg 200) Lines 14. Accum. Prov for Depr and Amort Depl	1939166902.00	1939166902.00	OK	
Line 5. Accum. Prov for Depr and Amort Depl agrees with Sched Summary of Utility Plant (Ref Pg 200) Lines 33. Total Accumulated Provisions	1939166902.00	1939166902.00	OK	
Line 6. Net Utility Plant agrees with Sched Summary of Utility Plant (Ref Pg 200) Lines 15. Net Utility Plant	2565158465.00	2565158465.00	OK	
Line 11. Utility Plant Adjustments are supported by Submitted Financial Statements as requested on Ref Pg 122				
Line 12. Gas Stored-Base Gas (117.1) agrees with Sched Gas Stored Accounts (Ref Pg 220) Line Balance at End of Year Column 117.1 (b)	2139990.00	2139990.00	OK	
Line 14. Gas Stored Underground - Non Current (117.3) agrees with Sched Gas Stored Accounts (Ref Pg 220) Line Balance at End of Year Column 117.4 (d)	0	0	OK	
Line 15. Gas Owned to System Gas (117.4) agrees with Sched Gas Stored Accounts (Ref Pg 220) Line Balance at End of Year Column 117.4 (e)	0	0	OK	
Line 17. Investments in Subsidiary Companies agrees with Sched Investments in Subsidiary Companies 123.1 (Ref Pg 224) Line Total Column Amt of Investment (g)	0	0	OK	
Line 47. Gas Stored Underground - Current (164.1) agrees with Sched Gas Stored Accounts (Ref Pg 220) Col 164.1 (f)	112152403.00	112152403.00	OK	

CheckList

Item	Value 1	Value 2	Agree	Explain
Line 48. Liquefied Nat Gas Stored and Held (164.3) agrees with Sched Gas Stored Accounts (Ref Pg 220) Sum of Cols 164.2 and 164.3	0	0	OK	
Line 49. Prepayments agrees with Sched Prepayments (Ref Pg 230)	5516939.00	5516939.00	OK	
Line 58. Extraordinary Property Losses agrees with Sched Extraordinary Property Losses (Ref Pg 230)	0	0	OK	
Line 59 Unrecovered Plant and Regulatory Study Costs agrees with Sched Unrecovered Plant and Regulatory Study Costs (Ref Pg 230)	0	0	OK	
Line 65 Miscellaneous Deferred Debits agrees with Sched Miscellaneous Deferred Debits (Ref Pg 233)	40583134.00	40583134.00	OK	
Line 69 Accumulated Deferred Income Taxes agrees with Sched Accumulated Deferred Income Taxes (Ref Pg 234) Total Acct 190	64982202.00	64982202.00	OK	
Comparative Balance Sheet (Liabilities and Other Credits) (Ref Pg 112)				
Line 2. Common Stock Issued agrees with Sched Capital Stock (Ref Pg 250) Line Total Common Stock Col (f)	425170424.00	425170424.00	OK	
Line 3. Preferred Stock Issued agrees with Sched Capital Stock (Ref Pg 250) Line Total Preferred Stock Col (f)	0	0	OK	
Line 4. Capital Stock Subscribed agrees with Sched Capital Stock Subscribed, Liability for Conversion Premium and Installments Received (Ref Pg 252) Line Total Capital Stock Subscribed Col (d)	0	0	OK	
Line 5. Stock Liability for Conversion agrees with Sched Capital Stock Subscribed, Liability for Conversion Premium and Installments Received (Ref Pg 252) Line Total Stock Liability for Conversion	0	0	OK	

CheckList

Item	Value 1	Value 2	Agree	Explain
Line 6. Premium on Capital Stock agrees with Sched Capital Stock Subscribed, Liability for Conversion Premium and Installments Received (Ref Pg 252) Line Total Premium on Capital Stock	0	0	OK	
Line 7. Other Paid-in Capital Stock agrees with Sched Other Paid in Capital(Ref Pg 253) Line Total	80000000.00	80000000.00	OK	
Line 8 . Installmnts Recvd Capital Stk agrees with Sched Capital Stock Subscribed, Liability for Conversion Premium and Installments Received (Ref Pg 252) Line Tot Inst. Recvd on Capital Stock	0	0	OK	
Line 9. Discount on Capital Stock agrees with Sched Discount on Capital Stock Acct 213 (Ref Pg 254) Line Total	0	0	OK	
Line 10. Capital Stock Expense agrees with Sched Capital Stock Expense Acct 214 (Ref Pg 254) Line Total	835889.00	835889.00	OK	
Line 11 Retained Earnings agrees with Statement of Retained Earnings for the Year (Ref Pg 118) Line 19. Total Retained Earnings	744218623.00	744218623.00	OK	
Line 12. Unappropriated Undistributed Subsidiary Earnings agrees with Statement of Retained Earnings for the Year (Ref Pg 118) Line 24. Balance End of Year	0	0	OK	
Line 13. Reacquired Capital Stock agrees with Capital Stock (Ref Pg 250) Line Total col Acct 217 (h)	0	0	OK	
Line 39. Taxes Accrued agrees with Sched Taxes Accrued, Prepaid and Charged (Ref Pg 263) Line Total Col Acct 236 (g)	17855185.00	17855185.00	OK	
Line 45. Misc Current and Accrued Liabilities agrees with Sched Misc Current and Accured Liabilities (Ref Pg 268) Line Total	12127743.00	12127743.00	OK	
Line 52. Other Deferred Credits agrees with Sched Other Deferred Credits (Ref Pg 269) Line Total	43652016.00	43652016.00	OK	
Income Statement (Ref Pg 114)				

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CheckList

Item	Value 1	Value 2	Agree	Explain
Line 2. Gas Operating Revenues agrees with Sched Gas Operating Revenues (Ref Pg 300) Line Total Col (h)	458365093.00	458365093.00	OK	
Sum of Lines 4 and 5 Operation and Maint Expenses agrees with Sched Gas Operation and Maintenance (Ref Pg 335) Line Total Gas O and M Expenses	409305827.00	409305827.00	OK	
Line 6. Depreciation Exp (403) agrees with Sched Depreciation, Depletion and Amort (Ref Pg 336) Line Total Col Depreciation (b)	18140332.00	18140332.00	OK	
Line 7. Amort and Depl (404-405) agrees with Sched Depreciation, Depletion and Amort (Ref Pg 336) Line Total Sum of Cols (c-f)	1528904.00	1528904.00	OK	
Sum of Lines 13,14 and 15. Taxes (408.1-409.1) agrees with Sched Taxes Accr, Prepd and Charged (Ref Pg 262) Line Total Col (j)	14616782.00	14616782.00	OK	
Line 16. Provision for Deferred Income Taxes (410.1) agrees with SUM OF Acct 190 (Ref Pg 234) Col c , Acct 282 (Ref Pg 274) Col c and Acct 282 (Ref Pg 276) Col c	53068787.00	53068787.00	OK	
Line 17. (Less) Provision for Deferred Income Taxes (411.1) agrees with SUM OF Acct 190 (Ref Pg 234) Col d , Acct 282 (Ref Pg 274) Col d and Acct 282 (Ref Pg 276) Col d	57827400.00	57827400.00	OK	
Income Statement (Ref Pg 116)				
Sum of Lines 48,49 and 50 agrees with Sched Taxes Accr, Prepd and Charged (Ref Pg 262) Line Total Taxes Other Than Income Col (l)	-3084236.00	-3084236.00	OK	
Line 49. Provision for Deferred Inc. Taxes agrees with Sched Accumulated Deferred Income Taxes (Ref Pg 234) Line Total Acct 190 Col 410.2 (e)	172873.00	172488.00	NO	The difference between the Provision for Deferred Income Taxes per the Income Statement and the Schedule of Accumulated Deferred Income Taxes of $385 is in Account 283 (Ref Pg 276).
Line 52. (Less) Provision for Deferred Inc. Taxes CR agrees with Sched Accumulated Deferred Income Taxes (Ref Pg 234) Line Total Acct 190 Col 411.2 (f)	273424.00	273424.00	OK	

CheckList

Item	Value 1	Value 2	Agree	Explain
Line 70. Income Taxes - Federal and Other agrees with Sched Taxes Accr, Prepd and Charged (Ref Pg 262) Col 409.3 (m) Sum of Lines Total Income Taxes Federal and Other	0	0	OK	
Summary of Utility Plant and Accumulated Provisions for Depreciation Amortization and Depletion (Ref Pg 200)				
Line 8. Total Utility Plant agrees with Sched Gas Plant in Service (Ref Pg 206) Line Total Gas Plant in Service Col (g)	597028976.00	597028976.00	OK	
Line 10. Held for Future Use agrees with Sched Gas Plant Held for Future Use (Ref Pg 214) Line Total	0	0	OK	
Line 11. Construction Work in Progress agrees with Sched Construction Work in Progress (Ref Pg 216) Line Total	53271644.00	53271644.00	OK	
Line 18. Depreciation agrees with Sched Accumulated Provision for Depreciation of Gas Utility Plant (Ref Pg 219) Line Balance at End of Year	219390627.00	219390627.00	OK	
Statement of Retained Earnings for the Year (Ref Pg 118)				
Line 10 Total Dividends Declared - Preferred Stock agrees with Statement of Cash Flows (Ref Pg 120) Line 68. Dividends on Preferred Stock	0	0	OK	
Line 11. Total Dividends Declared - Common Stock agrees with Statement of Cash Flows (Ref Pg 120) Line 69. Dividends on Common Stock	-40000000.00	-40000000.00	OK	
Miscellaneous General Expenses (Ref Pg 335)				
Line Total agrees with Sched Gas Operation and Maintenance (Ref Pg 323) Line Miscellaneous General Expenses	254076.00	254076.00	OK	

Notes to Financial Statements

Per Kentucky PSC Order No. 2008-00007, attached are the "Notes to Financial Statements" for Louisville Gas & Electric Company as reported in the FERC Form No. 1 for the period ended December 31, 2008.

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
Louisville Gas and Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

INDEX OF ABBREVIATIONS

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	LG&E
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
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
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
GHG	Greenhouse Gas
GSC	Gas Supply Clause
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.
Mw	Megawatts

NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Ratemaking
PCB	Polychlorinated Biphenyl
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Service
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

Note 1 - Summary of Significant Accounting Policies

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E provides electric service to approximately 389,000 customers in Louisville and adjacent areas in Kentucky covering approximately 700 square miles in 9 counties. Natural gas service is provided to approximately 314,000 customers in its electric service area and 8 additional counties in Kentucky. Approximately 97% of the electricity generated by LG&E is produced by its coal-fired generating stations, all equipped with systems to reduce SO_2 emissions. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs.

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

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.

Presentation. The accompanying financial statements are prepared on the regulatory basis of accounting in accordance with the requirements of the FERC, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles ("GAAP"). The significant differences between GAAP and FERC reporting are as follows:

- Restricted cash is recorded in cash on the balance sheet for FERC reporting and presented as a separate line item for GAAP statements;

- Certain costs of removal obligations are recorded in accumulated depreciation for FERC reporting and recorded in regulatory liabilities for GAAP reporting;
- Long-term and short-term bonds are recorded in total in the long-term debt section for FERC reporting and are presented separately in current liabilities for the short-term portion and in long-term debt for the long-term portion for GAAP reporting; and
- Deferred taxes are shown gross for FERC reporting in the balance sheet (a deferred asset and a deferred liability are recorded), for GAAP reporting the deferred taxes are netted together and recorded as a liability.

Regulatory Accounting. LG&E 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 or the Kentucky Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

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

Restricted Cash. A deposit in the amount of $22 million, used as collateral for an $83 million interest rate swap expiring in 2020, is classified as restricted cash on LG&E's balance sheet. Advanced deposits of $2 million relating to projects are also restricted for equipment purchases.

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, natural gas stored underground 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 LG&E. At December 31, 2008 and 2007, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments, included in other assets on the balance sheets, consists of LG&E's investment in OVEC and non-utility plant. LG&E 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, LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

As of December 31, 2008 and 2007, LG&E's investment in OVEC totaled less than $1 million. LG&E is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting. The direct exposure to loss as a result of 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, LG&E 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 LG&E's ownership interest and power purchase rights.

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. LG&E has not recorded any allowance for funds used during construction, in accordance with Kentucky Commission regulations.

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 3.1% in 2008 (2.9% electric, 2.7% gas and 7.3% common); and 3.2% in 2007 (3.0% electric, 2.8% gas and 7.7% common) of average depreciable plant. Of the amount provided for depreciation, at December 31, 2008, approximately 0.4% electric, 0.9% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation, at December 31, 2007, approximately 0.4% electric, 0.8% gas and 0.1% common were 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. LG&E and KU 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 LG&E'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. LG&E 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 $73 million and $65 million at December 31, 2008 and 2007, respectively.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E operates under a Kentucky Commission-approved performance-based ratemaking mechanism related to natural gas procurement activity. See Note 2, Rates and Regulatory Matters.

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 LG&E:

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 LG&E'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 and the FERC in virtually all matters related to electric and gas 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, there are no plans or intentions to discontinue the application of SFAS No. 71.

Electric and Gas Rate Cases

In July 2008, LG&E filed an application with the Kentucky Commission requesting increases in base electric and gas rates. In conjunction with the filing of the application for changes 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, LG&E, the AG, KIUC and all other parties to the rate cases filed a settlement agreement with the Kentucky Commission, under which LG&E's base gas rates will increase by $22 million annually, and base electric rates will decrease by $13 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 LG&E to set up a regulatory asset of $141 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 $9 million per year.

In February 2006, LG&E 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 LG&E filed for a change in electric or natural gas 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 LG&E'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 LG&E would file a plan for the merger surcredit six months before its expiration.

In December 2007, LG&E 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.

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	$ 29	$ 24
GSC	28	16
MISO exit	12	13
Unamortized loss on bonds	24	19
FAC	7	9
ECR	4	4
Hurricane Ike	24	-
Other	4	9
Subtotal	132	94
Pension and postretirement benefits	250	110
Total regulatory assets	$ 382	$ 204
Deferred income taxes – net	$ 45	$ 50
GSC ($29 million and $10 million at December 31, 2008 and 2007, respectively) and other	46	19
Total regulatory liabilities	$ 91	$ 69

LG&E does not currently earn a rate of return on the GSC, FAC and gas performance-based ratemaking regulatory assets (included in "Other" above), all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E will recover this asset through pension expense included in the calculation of base rates. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. 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. LG&E earns a rate of return on remaining regulatory assets, including other regulatory assets comprised of VDT costs (2007 only), merger surcredit, gas performance based ratemaking and Mill Creek Ash Pond costs. Other regulatory assets also include KCCS funding (see CMRG and KCCS Contributions below) and rate case expenses. LG&E 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 LG&E'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:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accumulated Cost of Removal
As of December 31, 2006	$ 4	$ (28)	$ 22	$ -	$ 3
ARO accretion	-	(2)	2	-	-
Removal cost incurred	-	1	-	-	-
As of December 31, 2007	4	(29)	24	-	3
ARO accretion	-	(2)	2	-	-
Removal cost reclass	-	-	3	(3)	-
As of December 31, 2008	$ 4	$ (31)	$ 29	$ (3)	$ 3

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. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. 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 year ended December 31, 2008, removal costs incurred were less than $1 million. For the years ended December 31, 2008 and 2007, LG&E 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.

LG&E 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.

GSC. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2008, LG&E achieved $11 million in savings. Of that total savings amount, LG&E's portion was approximately $3 million and the customers' portion was approximately $8 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with customers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with customers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

MISO. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E 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, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E 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.

LG&E 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 $13 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. LG&E 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 LG&E with an immediate recovery of less than $1 million and an estimated $2 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, LG&E 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. LG&E and other parties have requested rehearing and a delay in any collection of RSG amounts. During January and February 2009, the FERC issued a deficiency letter in the proceeding relating to one prior Order, which delays collection of 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, LG&E cannot predict the ultimate outcome of this matter. Based upon the recent FERC Orders, LG&E established a reserve during the fourth quarter of 2008, of $2 million relating to potential RSG resettlement costs for the period ended December 31, 2008.

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. LG&E's retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric 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 LG&E'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 LG&E's FAC for the six-month period November 1, 2007 through April 30, 2008. The Kentucky Commission issued an Order in January 2009, approving the charges and credits billed through the FAC during the review period.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in May 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 LG&E'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 LG&E'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 LG&E's recovery of approximately $1 million in aggregate fuel costs LG&E 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 LG&E's FAC charges and fuel procurement practices and indicated that LG&E was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved LG&E'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 and, as part of the Order in that case, required that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU'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 LG&E and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by LG&E with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that LG&E fully complied with all audit recommendations and that no further reports are required.

ECR. Kentucky law permits LG&E 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 LG&E'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 LG&E'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 LG&E'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, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

Mill Creek Ash Pond Costs. In June 2005, the Kentucky Commission issued an Order approving the establishment of a regulatory asset for $6 million in costs related to the removal of ash from the Mill Creek ash pond, and authorized amortization over four years beginning in May 2006.

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

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

Pension and Postretirement Benefits. LG&E 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, LG&E can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky 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.

Deferred Income Taxes -- Net. These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits and deferred taxes provided at rates in excess of currently enacted rates.

DSM. LG&E'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 LG&E to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, LG&E and KU 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. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

<u>Other Regulatory Matters</u>

Storm Restoration. In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E currently estimates costs incurred of $34 million of expenses and $6 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.

Regional Reliability Council. LG&E 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.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for the sale of its Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in relocating certain LG&E facilities related to the arena transaction. These costs are currently estimated to be approximately $63 million. As of December 31, 2008, approximately $58 million of the estimated total costs have been received. The relocation work is expected to be completed during 2009. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority which was completed for $9 million in September 2008. The contract amounts are subject to potential adjustments for certain cost or expense variances related to potential future demolition, construction or site environmental developments, although the Company does not currently anticipate such 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 LG&E and KU, 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, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County circuit court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. The matter is currently before the Kentucky Supreme Court on a motion for discretionary review filed by LG&E and KU 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 a transmission line in some of these forums as well. During 2008, LG&E and KU obtained various successful rulings at the Hardin County circuit court establishing their condemnation and easement rights. In August 2008, the landowners appealed such rulings to the Kentucky Court of Appeals and received a stay preventing LG&E and KU access to the properties during the appeal. LG&E and KU 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. LG&E and KU are cooperating with the U.S. Army in its defense in this case.

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

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting LG&E's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Company received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E'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, LG&E must comply with applicable affiliate restrictions set forth in the FERC's regulation. During September 2008, LG&E 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. LG&E is a member of the SERC, which acts as LG&E's RRO. During May 2008, the SERC and LG&E agreed to a settlement involving penalties totaling less than $1 million related to LG&E's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC and LG&E are currently involved in settlement negotiations concerning a June 2008 self-report by LG&E 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 LG&E and KU relating to certain designated reliability standards. This audit was completed during the first quarter of 2009 with no violations identified. While LG&E 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, LG&E and KU 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, LG&E and KU responded to public comments and they are awaiting the Kentucky Commission staff report which will close this proceeding. LG&E and KU are not able to predict further proceedings at this time.

PUHCA 2005. E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including LG&E, 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. LG&E 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. LG&E 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 LG&E 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. LG&E will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

As part of the LG&E 2004 rate case settlement agreements, and as referred to in the Kentucky Commission EPAct 2005 Administrative Order, LG&E made its responsive pricing and smart metering pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007. The AG and KIUC were granted full intervention. In July 2007, the Kentucky Commission approved the application as filed, for 100 residential customers and a sampling of other customers, and authorized LG&E to establish the responsive pricing and smart metering pilot program, recovery of non-specific customer costs through the DSM billing mechanism and the filing of annual reports by April 1, 2009, 2010 and 2011. LG&E must also file an evaluation of the program by July 1, 2011.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $35 million from 2009 to 2011.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field, which extends into Indiana. Following this review, LG&E submitted an application for Federal Power Act authorization in April 2007. The FERC accepted this application in July 2007, and granted appropriate permit status for retail gas activities and placed these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

Green Energy Riders. In February 2007, LG&E and KU 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 LG&E 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, LG&E 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. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In April 2008, the Kentucky Commission issued an Order denying LG&E's request to revise its collection cycle without prejudice for refiling the request in a base rate proceeding. As part of the base rate case filed on July 29, 2008, LG&E again 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 LG&E and KU.

Depreciation Study. In December 2007, LG&E 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, LG&E 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.

Brownfield Development Rider Tariff. In March 2008, 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.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines – Kentucky that were developed by all parties to the proceeding. LG&E does not expect any impact as a result of this Order. LG&E 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 LG&E'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	$ 411	$ 392	$ 574	$ 571
Long-term debt from affiliate	$ 485	$ 458	$ 410	$ 438
Interest-rate swaps - liability	$ 55	$ 55	$ 21	$ 21

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

LG&E is subject to the risk of fluctuating interest rates in the normal course of business. LG&E's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2008, a 100 basis point change in the benchmark rate on LG&E's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by $4 million annually.

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

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for swaps such as the Company utilizes. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at December 31, 2008. LG&E did not have any credit exposure to the swap counterparties, as LG&E was in a liability position at December 31, 2008, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, LG&E and the counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Using these valuation methodologies, the swap contracts are considered level 2 based on SFAS No. 157 measurement criteria. Cash collateral for interest rate swaps is classified as restricted cash and is a level 1 measurement based on the funds being held in a demand deposit account.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million and $211 million as of December 31, 2008 and 2007, respectively. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 1.27% and 3.50% at December 31, 2008 and 2007, respectively. One swap hedging LG&E's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. The remaining interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond became ineffective during 2008 as a result of the impact of downgrades of the underlying debt associated with issues involving the bond insurers. One swap with a notional value of $32 million was terminated in December 2008. See Note 7, Long-Term Debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. See Note 13, Accumulated Other Comprehensive Income. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. LG&E recorded a pre-tax loss of $8 million in other expense (income) during 2008, to reflect the ineffective portion of the interest rate swaps deemed highly effective. LG&E recorded a $36 million mark-to-market loss in earnings on the interest rate swaps related to the Jefferson County 2003 Series A bond after the swaps were deemed ineffective. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $22 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

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

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

Energy trading and risk management contracts are valued using prices based on active trades on the Intercontinental Exchange ("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.

LG&E 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. LG&E has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2008 and 2007, counterparty credit reserves were less than $1 million.

LG&E manages the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income. Unrealized gains and losses are included in other expense – net, whereas realized gains and losses are included in electric revenues. Unrealized losses were $1 million and unrealized gains were less than $1 million in 2008 and 2007, respectively. Realized gains were $3 million and losses were $5 million in 2008 and 2007, respectively.

Effective January 1, 2008, LG&E 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. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157.

The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of 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. 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
Interest rate swap cash collateral	22	-	22
Total Financial Assets	$ 22	$ 1	$ 23
Financial Liabilities:			
Interest rate swaps	$ -	$ 55	$ 55
Total Financial Liabilities	$ -	$ 55	$ 55

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.

LG&E's customer receivables and natural gas and electric revenues arise from deliveries of natural gas to approximately 314,000 customers and electricity to approximately 389,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2008, 69% of total revenue was derived from electric operations and 31% from natural gas operations. For the year ended December 31, 2007, 73% of total revenue was derived from electric operations and 27% from natural gas operations. During 2008, LG&E's 10 largest electric and gas customers accounted for less than 10% and less than 15% of total volumes, respectively.

Effective November 2008, LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions. The employees represented by this bargaining agreement comprise approximately 68% of LG&E's workforce at December 31, 2008.

Note 5 - Pension and Other Postretirement Benefit Plans

LG&E 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. LG&E 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 LG&E'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	$ 408	$ 408	$ 89	$ 105
Service cost	4	4	1	1
Interest cost	26	24	5	5
Plan amendments	-	19	2	2
Benefits paid, net of retiree contributions	(28)	(28)	(9)	(9)
Actuarial (gain)/loss and other	19	(19)	-	(15)
Benefit obligation at end of year	$ 429	$ 408	$ 88	$ 89
Change in plan assets				
Fair value of plan assets at beginning of year	$ 409	$ 356	$ 5	$ 6
Actual return on plan assets	(94)	26	-	1
Employer contributions	-	56	7	7
Benefits paid, net of retiree contributions	(28)	(28)	(9)	(9)
Administrative expenses and other	(1)	(1)	-	-
Fair value of plan assets at end of year	$ 286	$ 409	$ 3	$ 5
Funded status at end of year	$ (143)	$ 1	$ (85)	$ (84)

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	$ 233	$ 93	$ 17	$ 17
Non-current assets	-	14	-	-
Accrued benefit liability (current)	-	-	(3)	(3)
Accrued benefit liability (non-current)	(143)	(13)	(82)	(81)

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	$ 429	$ 408	$ 88	$ 89
Accumulated benefit obligation	396	378	-	-
Fair value of plan assets	286	409	3	5

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 LG&E 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 LG&E are approximately 42% of E.ON U.S. Services' total cost for both 2008 and 2007.

(in millions)

Pension Benefits

	LG&E 2008	Servco Allocation to LG&E 2008	Total LG&E 2008	LG&E 2007	Servco Allocation to LG&E 2007	Total LG&E 2007
Service cost	$ 4	$ 4	$ 8	$ 4	$ 4	$ 8
Interest cost	26	5	31	24	5	29
Expected return on plan assets	(32)	(5)	(37)	(32)	(5)	(37)
Amortization of prior service costs	6	1	7	5	1	6
Amortization of actuarial loss	1	-	1	2	1	3
Benefit cost at end of year	$ 5	$ 5	$ 10	$ 3	$ 6	$ 9

Other Postretirement Benefits

	LG&E 2008	Servco Allocation to LG&E 2008	Total LG&E 2008	LG&E 2007	Servco Allocation to LG&E 2007	Total LG&E 2007
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	5	-	5	5	-	5
Amortization of prior service costs	2	-	2	2	-	2
Benefit cost at end of year	$ 8	$ 1	$ 9	$ 8	$ 1	$ 9

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

	2008	2007
Weighted-average assumptions as of December 31:		
Discount rate - Union plan	6.33%	6.56%
Discount rate - Non-union plan	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 LG&E'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, LG&E 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 $47 million positive or negative impact to the 2008 accumulated benefit obligation and an approximate $54 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 $2 million in year-end 2008 postretirement benefit obligations.

Expected Future Benefit Payments. The following list provides the amount of expected future benefit payments, which reflect expected future service:

(in millions)	Pension Benefits	Other Postretirement Benefits
2009	$ 27	$ 7
2010	26	7
2011	26	8
2012	26	8
2013	25	8
2014-18	133	37

Plan Assets. The following table shows LG&E'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. LG&E made a discretionary contribution to the pension plan of $56 million in January 2007. In addition, contributions to other postretirement benefit plans of $7 million were made in 2008 and 2007. 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, LG&E 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. LG&E 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. LG&E 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.

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

LG&E 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, LG&E had $1 million of unrecognized tax benefits related to federal and state 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 LG&E that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes.

Interest and penalties, if any, are recorded as operating expenses on the income statement and accrued expenses on the balance sheet. The amount LG&E 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, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E 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	$ 37	$ 34
	- state	4	8
Deferred	- federal – net	(2)	10
	- state – net	(2)	2
Investment tax credit – deferred		8	9
Amortization of investment tax credit		(4)	(4)
Total income tax expense		$ 41	$ 59

Current state tax expense decreased due to an increase in coal and recycle credits in 2008. Deferred federal income tax expense decreased at December 31, 2008 compared to December 31, 2007 due to temporary differences for mark-to-market interest rate swaps and GSC.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $8 million and $9 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	$ 372	$ 368
Regulatory assets and other	39	30
Pension and related benefits	4	5
Total deferred tax liabilities	415	403
Deferred tax assets:		
Investment tax credit	12	14
Income taxes due to customers	18	19
Liabilities and other	39	24
Total deferred tax assets	69	57
Net deferred income tax liability	$ 346	$ 346
Balance sheet classification		
Current liabilities	$ 4	$ 4
Non-current liabilities	342	342
Net deferred income tax liability	$ 346	$ 346

LG&E 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 LG&E's effective income tax rate follows:

	2008	2007
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	0.6	3.4
Reduction of income tax reserve	(0.4)	(0.6)
Qualified production activities deduction	(1.0)	(1.1)
Amortization of investment tax credits	(3.0)	(2.2)
Other differences	0.1	(1.5)
Effective income tax rate	31.3 %	33.0 %

State income tax, net of federal benefit decreased due to coal and recycle credits claimed in 2008. Amortization of investment tax credits increased in 2008 due to the level of pre-tax income. Other differences primarily relate to various permanent differences and deferred adjustments.

Note 7 - Long-Term Debt

As of December 31, 2008 and 2007, long-term debt consists 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	Variable – 6.48%	2012-2037	$ 896
Outstanding at December 31, 2007	Variable – 5.98%	2012-2037	$ 984

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E'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 April 2007, the loan agreement is an unsecured obligation of LG&E.

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, LG&E had an aggregate $574 million (including $163 million of reacquired bonds) of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. 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 5.90% and 3.77%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In 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
Jefferson Co. 2000 Series A (1)	$ 25	A2	Aaa	BBB+	AAA
Trimble County 2000 Series A	$ 83	A2	Aaa	A	AAA
Jefferson Co. 2001 Series A	$ 10	A2	Aaa	A	AAA
Trimble County 2002 Series A	$ 42	A2	Aaa	A	AAA
Louisville Metro 2003 Series A	$ 128	A2	Aaa	BBB+	AAA
Louisville Metro 2005 Series A (1)	$ 40	A2	Aaa	BBB+	AAA
Trimble County 2007 Series A	$ 60	A2	Aaa	A	AAA
Louisville Metro 2007 Series A (1)	$ 31	A2	Aaa	BBB+	AAA
Louisville Metro 2007 Series B	$ 35	A2	Aaa	A	AAA

(1) Bond insurance terminated in November 2008 upon restructuring.

In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A and, 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series, and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. The Louisville Metro 2005 and 2007 Series A bonds were remarketed in November 2008.

In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bond from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bond from the remarketing agent. The bond was remarketed in November 2008.

In June 2008, LG&E issued notices to bondholders of its intention to convert the Louisville Metro 2003 Series A bond from the auction 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, LG&E purchased the bond from the remarketing agent.

In November 2008, LG&E converted three pollution control bonds to a mode wherein the interest rate is fixed for an intermediate term, but not the full term of the bond. At the end of the intermediate term, the Company must remarket the bonds or buy them back. The terms of the November transactions are:

($ in millions) Series	Principal Amount	Interest Rate	End of Fixed Rate Term
Jefferson County 2000 Series A	$ 25	5.375%	November 30, 2011
Louisville Metro 2007 Series A	$ 31	5.625%	December 2, 2012
Louisville Metro 2005 Series A	$ 40	5.75%	December 1, 2013

At the time of the conversion, the bond insurance policy that had been in place was terminated.

As of December 31, 2008, LG&E continued to hold repurchased bonds in the amount of $163 million. LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

All of LG&E's first mortgage bonds were released and terminated in April 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of LG&E'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. The average annualized interest rate for these bonds during 2008 and 2007 was 2.34% and 3.66%, respectively.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2008 and 2007, LG&E had swaps with an aggregate notional value of $179 million and $211 million, respectively. See Note 3, Financial Instruments.

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

($ in millions) Year	 Description	Principal Amount	 Rate	Secured/ Unsecured	 Maturity
2007	Pollution control bonds	$31	Variable	Secured	2017
2007	Pollution control bonds	$60	Variable	Secured	2017
2007	Pollution control bonds	$35	Variable	Secured	2013
2007	Mandatorily Redeemable Preferred Stock	$20	5.875%	Unsecured	2008

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

($ in millions) Year	 Description	Principal Amount	 Rate	Secured/ Unsecured	 Maturity
2008	Due to Fidelia	$50	6.48%	Unsecured	2015
2008	Due to Fidelia	$25	6.21%	Unsecured	2018
2007	Pollution control bonds	$31	Variable	Unsecured	2033
2007	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	Pollution control bonds	$35	Variable	Unsecured	2033
2007	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	Due to Fidelia	$68	5.93%	Unsecured	2031
2007	Due to Fidelia	$47	5.72%	Unsecured	2022

In January 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provided a source of funds for the redemption of LG&E's preferred stock. In April 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;
- 200,000 shares of $5.875 cumulative preferred stock (without par value) at $100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at $100 per share.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million. LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter. LG&E also completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E 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 LG&E are shown in the following table:

(in millions)	
2009 – 2011	$ -
2012	25
2013	200
Thereafter	671
Total	$ 896

Note 8 - Notes Payable and Other Short-Term Obligations

LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds available to LG&E at market-based rates (based on highly rated commercial paper issues) 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
December 31, 2008	$ 400	$ 222	$ 178	1.49%
December 31, 2007	$ 400	$ 78	$ 322	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, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012. There was no outstanding balance under any of these facilities at December 31, 2008.

The covenants under these revolving lines 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 LG&E 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

LG&E was in compliance with these covenants at December 31, 2008.

Note 9 - Commitments and Contingencies

Operating Leases. LG&E leases office space, office equipment, plant equipment and vehicles and accounts for these leases as operating leases. Total lease expense less amounts contributed by affiliated companies occupying a portion of the office space leased by LG&E, was $6 million and $5 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	3
2013	4
Thereafter	5
Total	$ 30

Sale and Leaseback Transaction. LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU 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 LG&E 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, LG&E 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 LG&E and KU.

At December 31, 2008, the maximum aggregate amount of default fees or amounts was $9 million, of which LG&E would be responsible for 38% (approximately $3 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

Letters of Credit. LG&E has provided letters of credit totaling $3 million to support certain obligations related to landfill reclamation and a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. LG&E has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. LG&E has an investment of 5.63% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2009	$ 20
2010	21
2011	21
2012	23
2013	23
Thereafter	349
Total	$ 457

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