KENTUCKY UTILITIES CO
Form 10-Q
November 08, 2012

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

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2012
	OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

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

	(Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, $0.01 par value, 581,705,916 shares outstanding at October 31, 2012.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 31, 2012.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2012.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2012.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

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

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

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

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

2011 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2011.

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

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

Bluegrass CTs - three natural gas combustion turbines owned by Bluegrass Generation. In 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of these combustion turbines, subject to certain conditions including receipt of applicable regulatory approvals and clearances. In June 2012, LG&E and KU terminated the asset purchase agreement.

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

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

CAIR - the EPA's Clean Air Interstate Rule.

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

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

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

CSAPR - Cross-State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 CAIR, which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court has granted a stay allowing CAIR to remain in place pending a ruling on the legal challenges to the CSAPR. In August 2012, the court remanded CSAPR to the EPA for further action.

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

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

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

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

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

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

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

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

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

EPS - earnings per share.

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

ESOP - Employee Stock Ownership Plan.

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

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

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

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

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

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility.

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

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

ISO - Independent System Operator.

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

kV - kilovolt

LIBOR - London Interbank Offered Rate.

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

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

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - natural gas-fired combined-cycle turbine.

NPDES - National Pollutant Discharge Elimination System.

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

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

OCI - other comprehensive income or loss.

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

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

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

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

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

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

Act.

PP&E - property, plant and equipment.

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

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

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts.

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

RECs - renewable energy credits.

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

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

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

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

RMC - Risk Management Committee.

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

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

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

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

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

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

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

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

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

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

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus that was terminated effective April 1, 2012.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases using ammonia.

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

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

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

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

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

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

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

VIE - variable interest entity.

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

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

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

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2011 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

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

- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery filings by PPL Electric at the PUC or the FERC, by LG&E at the KPSC or the FERC, by KU at the KPSC, VSCC, TRA or the FERC, or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

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

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

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating Revenues				
Utility	$ 1,693	$ 1,675	$ 5,012	$ 4,695
Unregulated retail electric and gas	218	189	620	517
Wholesale energy marketing				
Realized	1,076	907	3,367	2,677
Unrealized economic activity (Note 14)	(716)	216	(322)	229
Net energy trading margins	(11)	(7)	7	14
Energy-related businesses	143	140	380	387
Total Operating Revenues	2,403	3,120	9,064	8,519
Operating Expenses				
Operation				
Fuel	570	603	1,405	1,492
Energy purchases				
Realized	583	362	2,253	1,467
Unrealized economic activity (Note 14)	(569)	176	(420)	49
Other operation and maintenance	650	735	2,095	2,041
Depreciation	278	252	813	697
Taxes, other than income	90	90	268	238
Energy-related businesses	137	135	363	368
Total Operating Expenses	1,739	2,353	6,777	6,352
Operating Income	664	767	2,287	2,167
Other Income (Expense) - net	(44)	37	(31)	(2)
Other-Than-Temporary Impairments		5	1	6
Interest Expense	248	240	714	678
Income from Continuing Operations Before Income Taxes	372	559	1,541	1,481
Income Taxes	17	110	364	429
	355	449	1,177	1,052

Income from Continuing Operations After Income Taxes								
Income (Loss) from Discontinued Operations (net of income taxes)						(6)		2
Net Income		355		449		1,171		1,054
Net Income Attributable to Noncontrolling Interests				5		4		13
Net Income Attributable to PPL Shareowners	$	355	$	444	$	1,167	$	1,041
Amounts Attributable to PPL Shareowners:								
Income from Continuing Operations After Income Taxes	$	355	$	444	$	1,173	$	1,039
Income (Loss) from Discontinued Operations (net of income taxes)						(6)		2
Net Income	$	355	$	444	$	1,167	$	1,041
Earnings Per Share of Common Stock:								
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:								
Basic	$	0.61	$	0.76	$	2.01	$	1.91
Diluted	$	0.61	$	0.76	$	2.01	$	1.91
Net Income Available to PPL Common Shareowners:								
Basic	$	0.61	$	0.76	$	2.00	$	1.92
Diluted	$	0.61	$	0.76	$	2.00	$	1.91
Dividends Declared Per Share of Common Stock	$	0.36	$	0.35	$	1.08	$	1.05
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		580,585		577,595		579,847		541,135
Diluted		582,636		578,054		580,930		541,480

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

Comprehensive income (loss) attributable to PPL Shareowners	$	436	$	379	$	916	$	1,020

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2012	2011
Cash Flows from Operating Activities		
Net income	$ 1,171	$ 1,054
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	813	697
Amortization	144	180
Defined benefit plans - expense	123	165
Deferred income taxes and investment tax credits	298	403
Unrealized (gains) losses on derivatives, and other hedging activities	21	(190)
Other	34	110
Change in current assets and current liabilities		
Accounts receivable	19	(134)
Accounts payable	(175)	(164)
Unbilled revenues	121	236
Prepayments	(11)	286
Counterparty collateral	13	(273)
Taxes	29	(64)
Accrued interest	43	111
Other	15	87
Other operating activities		
Defined benefit plans - funding	(526)	(565)
Other assets	1	(22)
Other liabilities	(39)	(71)
Net cash provided by operating activities	2,094	1,846
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,078)	(1,685)
Proceeds from the sale of certain non-core generation facilities		381
Ironwood Acquisition, net of cash acquired	(84)	
Acquisition of WPD Midlands		(5,763)
Purchases of nuclear plant decommissioning trust investments	(112)	(144)
Proceeds from the sale of nuclear plant decommissioning trust investments	102	134
Proceeds from the sale of other investments	20	163
Net (increase) decrease in restricted cash and cash equivalents	62	(51)
Other investing activities	(26)	(74)
Net cash provided by (used in) investing activities	(2,116)	(7,039)
Cash Flows from Financing Activities		
Issuance of long-term debt	824	5,245
Retirement of long-term debt	(105)	(708)
Issuance of common stock	54	2,281

Payment of common stock dividends		(623)		(543)
Redemption of preference stock of a subsidiary		(250)		
Debt issuance and credit facility costs		(10)		(84)
Contract adjustment payments		(71)		(49)
Net increase (decrease) in short-term debt		(51)		(322)
Other financing activities		(8)		(16)
Net cash provided by (used in) financing activities		(240)		5,804
Effect of Exchange Rates on Cash and Cash Equivalents		6		(25)
Net Increase (Decrease) in Cash and Cash Equivalents		(256)		586
Cash and Cash Equivalents at Beginning of Period		1,202		925
Cash and Cash Equivalents at End of Period	$	946	$	1,511

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

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

Total Assets	$	43,240	$	42,648

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

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

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

(a) 780,000 shares authorized; 580,970 and 578,405 shares issued and outstanding at September 30, 2012 and December 31, 2011.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	PPL Shareowners												
	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive loss		Non-controlling interests		Total
June 30, 2012	580,213	$	6	$	6,886	$	5,190	$	(1,120)	$	18	$	10,980
Common stock issued (b)	757				21								21
Stock-based compensation (c)					5								5
Net income							355						355
Dividends, dividend equivalents, redemptions and distributions (e)							(210)						(210)
Other comprehensive income (loss)									81				81
September 30, 2012	580,970	$	6	$	6,912	$	5,335	$	(1,039)	$	18	$	11,232
December 31, 2011	578,405	$	6	$	6,813	$	4,797	$	(788)	$	268	$	11,096
Common stock issued (b)	2,565				71								71
Stock-based compensation (c)					28								28
Net income							1,167				4		1,171
Dividends, dividend equivalents, redemptions and distributions (e)							(629)				(254)		(883)

Other comprehensive income (loss)										(251)				(251)
September 30, 2012	580,970	$	6	$	6,912	$	5,335	$		(1,039)	$	18	$	11,232
June 30, 2011	577,265	$	6	$	6,774	$	4,306	$		(435)	$	268	$	10,919
Common stock issued (b)	579				16									16
Stock-based compensation (c)					5									5
Net income							444					5		449
Dividends, dividend equivalents and distributions (e)							(203)					(5)		(208)
Other comprehensive income (loss)										(65)				(65)
September 30, 2011	577,844	$	6	$	6,795	$	4,547	$		(500)	$	268	$	11,116
December 31, 2010	483,391	$	5	$	4,602	$	4,082	$		(479)	$	268	$	8,478
Common stock issued (b)	94,453		1		2,328									2,329
Purchase Contracts (d)					(141)									(141)
Stock-based compensation (c)					6									6
Net income							1,041					13		1,054
Dividends, dividend equivalents and distributions (e)							(576)					(13)		(589)
Other comprehensive income (loss)										(21)				(21)
September 30, 2011	577,844	$	6	$	6,795	$	4,547	$		(500)	$	268	$	11,116

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
(b) Each period includes shares of common stock issued through various stock and incentive compensation plans. The nine months ended September 30, 2011 includes the April issuance of 92 million shares of common stock.
(c) The three and nine months ended September 30, 2012 include $7 million and $42 million and the three and nine months ended September 30, 2011 include $5 million and $27 million of stock-based compensation expense related to new and existing unvested equity awards. The three and nine months ended September 30, 2012 include $(2) million and $(14) million and the nine months ended September 30, 2011 includes $(21) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.
(d) The nine months ended September 30, 2011 include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax.
(e) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. In June 2012, PPL Electric redeemed all of its outstanding preference stock at par value, $250 million in the aggregate. See Note 7 for additional information.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

Income (Loss) from Discontinued Operations (net of income taxes)								2
Net Income		55		170		383		473
Net Income Attributable to Noncontrolling Interests		1		1		1		1
Net Income Attributable to PPL Energy Supply Member	$	54	$	169	$	382	$	472
Amounts Attributable to PPL Energy Supply Member:								
Income from Continuing Operations After Income Taxes	$	54	$	169	$	382	$	470
Income (Loss) from Discontinued Operations (net of income taxes)								2
Net Income	$	54	$	169	$	382	$	472

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

Net increase (decrease) in short-term debt		(45)		(100)
Other financing activities		(1)		(1)
Net cash provided by (used in) financing activities		(313)		(524)
Net Increase (Decrease) in Cash and Cash Equivalents		53		(286)
Cash and Cash Equivalents at Beginning of Period		379		661
Cash and Cash Equivalents at End of Period	$	432	$	375

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

(a)

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

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

(a) In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution.

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

Net Increase (Decrease) in Cash and Cash Equivalents		(289)		57
Cash and Cash Equivalents at Beginning of Period		320		204
Cash and Cash Equivalents at End of Period	$	31	$	261

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

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

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 173	$ 171
Accounts payable to affiliates	57	64
Interest	19	24
Regulatory liabilities	52	53
Customer deposits and prepayments	26	39
Vacation	23	22
Other current liabilities	50	47
Total Current Liabilities	400	420
Long-term Debt	1,967	1,718
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,187	1,115
Investment tax credits	4	5
Accrued pension obligations	142	186
Regulatory liabilities	12	7
Other deferred credits and noncurrent liabilities	109	129
Total Deferred Credits and Other Noncurrent Liabilities	1,454	1,442
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preference stock		250
Common stock - no par value (a)	364	364
Additional paid-in capital	1,129	979
Earnings reinvested	552	532
Total Equity	2,045	2,125
Total Liabilities and Equity	$ 5,866	$ 5,705

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2012 and December 31, 2011.

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

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preference stock	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2012	66,368	$	$ 364	$ 979	$ 538	$ 1,881
Net income					33	33
Capital contributions from PPL				150		150
Cash dividends declared on common stock					(19)	(19)
September 30, 2012	66,368	$	$ 364	$ 1,129	$ 552	$ 2,045
December 31, 2011	66,368	$ 250	$ 364	$ 979	$ 532	$ 2,125
Net income					99	99
Redemption of preference stock (b)		(250)				(250)
Capital contributions from PPL				150		150
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(75)	(75)
September 30, 2012	66,368	$	$ 364	$ 1,129	$ 552	$ 2,045
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
Net income					32	32
Capital contributions from PPL				56		56
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(24)	(24)
September 30, 2011	66,368	$ 250	$ 364	$ 935	$ 491	$ 2,040
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income					128	128
Capital contributions from PPL				56		56
Cash dividends declared on preference stock					(12)	(12)
Cash dividends declared on common stock					(76)	(76)
September 30, 2011	66,368	$ 250	$ 364	$ 935	$ 491	$ 2,040

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

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

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

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 206	$ 224
Accounts payable to affiliates	2	2
Customer deposits	47	45
Taxes	76	25
Regulatory liabilities	13	20
Interest	51	23
Salaries and benefits	67	59
Other current liabilities	47	35
Total Current Liabilities	509	433
Long-term Debt	4,074	4,073
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	645	413
Investment tax credits	140	144
Accrued pension obligations	316	359
Asset retirement obligations	118	116
Regulatory liabilities	987	1,003
Price risk management liabilities	57	55
Other deferred credits and noncurrent liabilities	248	239
Total Deferred Credits and Other Noncurrent Liabilities	2,511	2,329
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	3,822	3,741
Total Liabilities and Equity	$ 10,916	$ 10,576

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

		Member's Equity
June 30, 2012	$	3,774
Net income		83
Distributions to member		(35)
September 30, 2012	$	3,822
December 31, 2011	$	3,741
Net income		180
Distributions to member		(95)
Other comprehensive income (loss)		(4)
September 30, 2012	$	3,822
June 30, 2011	$	3,991
Net income		89
Distributions to member		(323)
September 30, 2011	$	3,757
December 31, 2010	$	4,011
Net income		217
Distributions to member		(469)
Other comprehensive income (loss)		(2)
September 30, 2011	$	3,757

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

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CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2012	2011
Cash Flows from Operating Activities		
Net income	$ 94	$ 102
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	114	110
Amortization	8	9
Defined benefit plans - expense	14	16
Deferred income taxes and investment tax credits	40	38
Other	(11)	2
Change in current assets and current liabilities		
Accounts receivable	(5)	21
Accounts payable	2	(16)
Unbilled revenues	16	39
Fuel, materials and supplies	(10)	16
Taxes	21	9
Other	13	3
Other operating activities		
Defined benefit plans - funding	(26)	(68)
Other assets	(2)	(7)
Other liabilities	(1)	5
Net cash provided by operating activities	267	279
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(193)	(127)
Proceeds from the sale of other investments		163
Net (increase) decrease in restricted cash and cash equivalents	(3)	(11)
Net cash provided by (used in) investing activities	(196)	25
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		(12)
Net increase (decrease) in short-term debt		(163)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(47)	(55)
Net cash provided by (used in) financing activities	(48)	(231)
Net Increase (Decrease) in Cash and Cash Equivalents	23	73
Cash and Cash Equivalents at Beginning of Period	25	2
Cash and Cash Equivalents at End of Period	$ 48	$ 75

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

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

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

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

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

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 89	$ 94
Accounts payable to affiliates	24	26
Customer deposits	23	22
Taxes	34	13
Regulatory liabilities	5	10
Interest	11	6
Salaries and benefits	18	14
Other current liabilities	14	14
Total Current Liabilities	218	199
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	520	475
Investment tax credits	41	43
Accrued pension obligations	71	95
Asset retirement obligations	55	55
Regulatory liabilities	467	478
Price risk management liabilities	57	55
Other deferred credits and noncurrent liabilities	108	113
Total Deferred Credits and Other Noncurrent Liabilities	1,319	1,314
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,278	1,278
Earnings reinvested	107	60
Total Equity	1,809	1,762
Total Liabilities and Equity	$ 4,458	$ 4,387

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2012 and December 31, 2011.

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

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2012	21,294	$ 424	$ 1,278	$ 80	$ 1,782
Net income				43	43
Cash dividends declared on common stock				(16)	(16)
September 30, 2012	21,294	$ 424	$ 1,278	$ 107	$ 1,809
December 31, 2011	21,294	$ 424	$ 1,278	$ 60	$ 1,762
Net income				94	94
Cash dividends declared on common stock				(47)	(47)
September 30, 2012	21,294	$ 424	$ 1,278	$ 107	$ 1,809
June 30, 2011	21,294	$ 424	$ 1,278	$ 36	$ 1,738
Net income				43	43
Cash dividends declared on common stock				(13)	(13)
September 30, 2011	21,294	$ 424	$ 1,278	$ 66	$ 1,768
December 31, 2010	21,294	$ 424	$ 1,278	$ 19	$ 1,721
Net income				102	102
Cash dividends declared on common stock				(55)	(55)
September 30, 2011	21,294	$ 424	$ 1,278	$ 66	$ 1,768

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

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

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CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

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

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 42	$ 31
Accounts receivable (less reserve: 2012, $2; 2011, $2)		
Customer	90	69
Other	5	9
Unbilled revenues	71	81
Accounts receivable from affiliates	14	
Fuel, materials and supplies	126	141
Prepayments	9	7
Income taxes receivable		5
Deferred income taxes	5	5
Regulatory assets	4	
Other current assets	6	3
Total Current Assets	372	351
Investments	19	31
Property, Plant and Equipment		
Regulated utility plant	4,723	4,563
Less: accumulated depreciation - regulated utility plant	262	161
Regulated utility plant, net	4,461	4,402
Construction work in progress	463	340
Property, Plant and Equipment, net	4,924	4,742
Other Noncurrent Assets		
Regulatory assets	206	217
Goodwill	607	607
Other intangibles	129	148
Other noncurrent assets	60	60
Total Other Noncurrent Assets	1,002	1,032
Total Assets	$ 6,317	$ 6,156

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

		September 30, 2012		December 31, 2011
Liabilities and Equity				
Current Liabilities				
Accounts payable	$	107	$	112
Accounts payable to affiliates		29		33
Customer deposits		24		23
Taxes		37		11
Regulatory liabilities		8		10
Interest		25		11
Salaries and benefits		14		15
Other current liabilities		30		13
Total Current Liabilities		274		228
Long-term Debt		1,842		1,842
Deferred Credits and Other Noncurrent Liabilities				
Deferred income taxes		563		484
Investment tax credits		99		101
Accrued pension obligations		72		83
Asset retirement obligations		63		61
Regulatory liabilities		520		525
Other deferred credits and noncurrent liabilities		93		87
Total Deferred Credits and Other Noncurrent Liabilities		1,410		1,341
Commitments and Contingent Liabilities (Notes 6 and 10)				
Stockholder's Equity				
Common stock - no par value (a)		308		308
Additional paid-in capital		2,348		2,348
Accumulated other comprehensive income (loss)		(4)		
Earnings reinvested		139		89
Total Equity		2,791		2,745
Total Liabilities and Equity	$	6,317	$	6,156

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2012 and December 31, 2011.

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

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
June 30, 2012	37,818	$ 308	$ 2,348	$ 109	$ (4)	$ 2,761
Net income				50		50
Cash dividends declared on common stock				(20)		(20)
September 30, 2012	37,818	$ 308	$ 2,348	$ 139	$ (4)	$ 2,791
December 31, 2011	37,818	$ 308	$ 2,348	$ 89		$ 2,745
Net income				118		118
Cash dividends declared on common stock				(68)		(68)
Other comprehensive income (loss)					$ (4)	(4)
September 30, 2012	37,818	$ 308	$ 2,348	$ 139	$ (4)	$ 2,791
June 30, 2011	37,818	$ 308	$ 2,348	$ 55	$ (1)	$ 2,710
Net income				56		56
Cash dividends declared on common stock				(20)		(20)
Other comprehensive income (loss)					1	1
September 30, 2011	37,818	$ 308	$ 2,348	$ 91	$	$ 2,747
December 31, 2010	37,818	$ 308	$ 2,348	$ 35		$ 2,691
Net income				144		144
Cash dividends declared on common stock				(88)		(88)
September 30, 2011	37,818	$ 308	$ 2,348	$ 91	$	$ 2,747

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

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

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

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

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2011 is derived from that Registrant's 2011 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2011 Form 10-K. The results of operations for the three and nine months ended September 30, 2012, are not necessarily indicative of the results to be expected for the full year ending December 31, 2012, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2012 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed. Therefore, the periods ended September 30, 2012 include three and nine months of WPD Midlands' results, compared with three and five months for the same periods in 2011. See Note 8 for additional information on the acquisition.

(PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 8 for additional information.

2. Summary of Significant Accounting Policies

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

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2011 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable (PPL, PPL Energy Supply and PPL Electric)

PPL Electric's customers may choose an alternative supplier for their generation supply. In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric continues to purchase certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three and nine months ended September 30, 2012, PPL Electric purchased $225 million and $647 million of accounts receivable from unaffiliated third parties and $81 million and $237 million from its affiliate, PPL EnergyPlus. During the three and nine months ended September 30, 2011, PPL Electric purchased $222 million and $674 million of accounts receivable from unaffiliated third parties and $71 million and $191 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair Value Measurements

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance that was issued to clarify existing fair value measurement guidance and to enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Levels 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the fair value hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

The adoption of this standard resulted in additional footnote disclosures but did not have a significant impact on the Registrants. See Note 13 for additional disclosures required by this guidance.

Testing Goodwill for Impairment

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance which allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard did not have a significant impact on the Registrants.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2011 Form 10-K for a discussion of reportable segments. In 2012, the International Regulated segment was renamed the U.K. Regulated segment to more specifically reflect the focus of this segment. Other than the name change, there were no other changes to this segment. Because the acquisition of WPD Midlands occurred on April 1, 2011, and PPL consolidates WPD Midlands on a one-month lag, the 2011 operating results of the U.K. Regulated segment for the nine-month period include five months of WPD Midlands results.

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

	Three Months		Nine Months	
	2012	2011	2012	2011
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	$ 732	$ 736	$ 2,095	$ 2,140
U.K. Regulated	528	493	1,647	1,138
Pennsylvania Regulated	443	454	1,303	1,444
Supply (a)	700	1,437	4,019	3,797
Total	$ 2,403	$ 3,120	$ 9,064	$ 8,519
Intersegment electric revenues				

Pennsylvania Regulated	$	1	$	1	$	3	$	9
Supply		23		5		61		15
Net Income Attributable to PPL Shareowners								
Kentucky Regulated	$	72	$	78	$	148	$	184
U.K. Regulated		202		138		563		231
Pennsylvania Regulated		33		28		95		116
Supply (a)		48		200		361		510
Total	$	355	$	444	$	1,167	$	1,041

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

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

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. For the three and nine months ended September 30, 2012 and 2011, these securities included stock options and performance units granted under incentive compensation plans and the Purchase Contracts associated with Equity Units. For the three and nine months ended September 30, 2012, these securities also included the PPL common stock forward sale agreements. See Note 7 for additional information on the forward sale agreements.

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

The Purchase Contracts are dilutive under the treasury stock method if the average VWAP of PPL common stock for a certain period exceeds approximately $30.99 and $28.80 for the 2011 and 2010 Purchase Contracts. The 2010 Purchase Contracts were dilutive for the three and nine months ended September 30, 2012. Subject to antidilution adjustments at September 30, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 95.8 million shares, including 86.5 million shares that could be issued under standard provisions of the Purchase Contracts and 9.3 million shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change.

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

	Three Months		Nine Months	
	2012	2011	2012	2011
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners	$ 355	$ 444	$ 1,173	$ 1,039
Less amounts allocated to participating securities	2	2	7	4

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

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

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

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

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

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

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

5. Income Taxes

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

(PPL)

	Three Months 2012	Three Months 2011	Nine Months 2012	Nine Months 2011
Reconciliation of Income Tax Expense				

Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$	130	$	196	$	539	$	518
Increase (decrease) due to:								
State income taxes, net of federal income tax benefit		6		8		38		47
State valuation allowance adjustments (a)		2				2		11
Impact of lower U.K. income tax rates (b)		(30)		(12)		(75)		(31)
U.S. income tax on foreign earnings - net of foreign tax credit (c)		1		(10)		2		(25)
Federal and state tax reserve adjustments		(2)		4		(7)		1
Foreign tax reserve adjustments (d)				2		(5)		2
Enactment of the U.K.'s Finance Acts 2012 and 2011 (b)		(74)		(69)		(74)		(69)
Federal income tax credits		(5)		(4)		(12)		(11)
Amortization of investment tax credit		(2)		(2)		(7)		(6)
Depreciation not normalized (a)		(2)		(1)		(6)		(7)
State deferred tax rate change (e)		(6)				(17)		
Net operating loss carryforward adjustments (f)						(9)		
Nondeductible acquisition-related costs (g)				1				9
Other		(1)		(3)		(5)		(10)
Total increase (decrease)		(113)		(86)		(175)		(89)
Total income taxes from continuing operations	$	17	$	110	$	364	$	429

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the decrease in projected taxable income related to bonus depreciation, PPL recorded state deferred income tax expense during the nine months ended September 30, 2011 related to valuation allowances.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed into service before January 1, 2012. The placed in-service deadline is extended to January 1, 2013 for property that exceeds $1 million, has a production period longer than one year and has a tax life of at least ten years.

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

The U.K. Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2011 related to both rate decreases.

(c) During the three and nine months ended September 30, 2011, PPL recorded a $7 million and $21 million federal income tax benefit related to U.K. pension contributions.

(d) During the nine months ended September 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to interest expense.

(e) During the three and nine months ended September 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.

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

(g) During the three and nine months ended September 30, 2011, PPL recorded non-deductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands.

(PPL Energy Supply)

	Three Months		Nine Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 25	$ 96	$ 205	$ 272
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	11	25	38
State valuation allowance adjustments (a)	2		2	6
Federal and state tax reserve adjustments		1		2
Federal income tax credits	(4)	(5)	(10)	(11)
State deferred tax rate change (b)	(6)		(17)	
Other	(2)	1	(3)	(2)
Total increase (decrease)	(9)	8	(3)	33
Total income taxes from continuing operations	$ 16	$ 104	$ 202	$ 305

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the decrease in projected taxable income related to bonus depreciation, PPL Energy Supply recorded state deferred income tax expense during the nine months ended September 30, 2011 related to valuation allowances on state net operating loss carryforwards.

(b) During the three and nine months ended September 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

(PPL Electric)

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

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012.

(LKE)

	Three Months 2012	Three Months 2011	Nine Months 2012	Nine Months 2011
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 46	$ 50	$ 96	$ 120
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	4	7	11
Amortization of investment tax credit	(1)	(1)	(4)	(4)
Net operating loss carryforward adjustments (a)			(9)	
Other	(2)	(1)	(1)	(2)
Total increase (decrease)	2	2	(7)	5
Total income taxes from continuing operations	$ 48	$ 52	$ 89	$ 125

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

(LG&E)

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

(KU)

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

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

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

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

	Three Months 2012	Three Months 2011	Nine Months 2012	Nine Months 2011
PPL Energy Supply				
Beginning of period	$ 31	$ 28	$ 28	$ 183
Additions based on tax positions of prior years			4	
Reductions based on tax positions of prior years			(1)	
Derecognize unrecognized tax benefits (b)				(155)
End of period	$ 31	$ 28	$ 31	$ 28
PPL Electric				
Beginning of period	$ 43	$ 56	$ 73	$ 62
Reductions based on tax positions of prior years	(1)		(28)	
Additions based on tax positions related to the current year			1	
Reductions based on tax positions related to the current year				(1)
Lapse of applicable statutes of limitations	(2)	(3)	(6)	(8)
End of period	$ 40	$ 53	$ 40	$ 53

(a) Unrecognized tax benefits at September 30, 2011 included $146 million of U.K. capital losses related to positions previously recorded on U.K. income tax returns. In October 2011, the U.K. tax authority accepted these capital loss positions. As a result, capital loss carryforwards were increased. PPL reversed the unrecognized tax benefit and recorded a deferred tax asset in the fourth quarter of 2011. Simultaneously, PPL recorded a valuation allowance against the deferred tax asset related to the increase in capital loss carryforwards.

(b) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and nine months ended September 30, 2012 and 2011.

At September 30, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 21	$ 105
PPL Energy Supply	1	31
PPL Electric	22	38

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

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

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

Other (PPL, PPL Energy Supply and PPL Electric)

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for the Pennsylvania generation, transmission and distribution operations. The same change was made for the Montana generation operations for 2009.

In August 2011, the IRS issued Rev. Procs. 2011-42 and 2011-43. Rev. Proc. 2011-42 provides guidance regarding the use and evaluation of statistical samples and sampling estimates. Rev. Proc. 2011-43 provides a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. PPL adopted the safe harbor method with the filing of its 2011 federal income tax return.

The IRS has not issued guidance to provide a safe harbor method for repair expenditures for generation property. The IRS may assert and ultimately conclude that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established an adequate reserve for this contingency.

Tax Litigation (PPL)

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in the fourth quarter of 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion. The Supreme Court granted PPL's petition on October 29, 2012, and PPL is assessing what impact, if any, this development will have on its results of operations in the fourth quarter of 2012. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

6. Utility Rate Regulation

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

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Current Regulatory Assets:				
Gas supply clause	$ 6	$ 6		
Fuel adjustment clause	13	3		
Other	2			
Total current regulatory assets	$ 21	$ 9		
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 583	$ 615	$ 266	$ 276
Taxes recoverable through future rates	299	289	299	289
Storm costs	143	154	31	31

Unamortized loss on debt	99	110	68	77
Interest rate swaps	71	69		
Accumulated cost of removal of utility plant	67	53	67	53
Coal contracts (a)	5	11		
AROs	26	18		
Other	30	30	2	3
Total noncurrent regulatory assets	$ 1,323	$ 1,349	$ 733	$ 729

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

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

Gas supply clause	5	6	$ 5	$ 6		
Other	1	7		4	1	3
Total current regulatory liabilities	$ 13	$ 20	$ 5	$ 10	$ 8	$ 10
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 673	$ 651	$ 294	$ 286	$ 379	$ 365
Coal contracts (a)	151	180	66	78	85	102
Power purchase agreement - OVEC (a)	110	116	76	80	34	36
Net deferred tax assets	35	39	28	31	7	8
Defined benefit plans	10	9			10	9
Other	8	8	3	3	5	5
Total noncurrent regulatory liabilities	$ 987	$ 1,003	$ 467	$ 478	$ 520	$ 525

(a) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities (PPL, LKE, LG&E and KU)

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site in Kentucky. In May 2012, the KPSC issued an order approving the request to build the NGCC.

LG&E will own a 22% undivided interest and KU will own a 78% undivided interest in the new NGCC. A formal request for recovery of the costs associated with the NGCC construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate proceedings. See Note 8 for additional information.

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

The CPCN application also requested approval to purchase the Bluegrass CTs. The May 2012 KPSC approval included authority to complete the Bluegrass CT acquisition. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the asset purchase agreement termination and potential future generation capacity options. See Note 8 for additional information.

Kentucky Acquisition Commitments

In connection with the September 2010 approval of PPL's acquisition of LKE, LG&E and KU agreed to implement the Acquisition Savings Sharing Deferral (ASSD) methodology whereby LG&E's and KU's adjusted jurisdictional revenues, expenses, and net operating income are calculated each year. If LG&E's or KU's actual earned rate of return on common equity exceeds 10.75%, half of the excess amount will be deferred as a regulatory liability and ultimately returned to customers. The first ASSD filing with the KPSC was made on March 30, 2012 based on the 2011 calendar year. On July 2, 2012, the KPSC issued an order approving the calculations contained in the 2011 ASSD filing and determined that such calculations produced no deferral amounts for the purpose of establishing regulatory liabilities and are proper and in accordance with the settlement agreement. The ASSD methodology for each of LG&E's and KU's utility operations will terminate on the earlier of the end of 2015 or the first day of the calendar year during which new base rates go into effect, currently expected to be 2013. Therefore, due to the timing of the current rate case in Kentucky, no further ASSD filings are expected.

Rate Case Proceedings

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately $62 million at LG&E and approximately $82 million at KU and an increase in annual base gas rates of approximately $17 million at LG&E. The proposed base rate increases would result in electric rate increases of 6.9% at LG&E and 6.5% at KU and a gas rate increase of 7.0% at LG&E and would be effective in January 2013. LG&E's and KU's applications include requests for authorized returns-on-equity at LG&E and KU of 11% each. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. LG&E and KU cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Independent Transmission Operators

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

Storm Costs (PPL, LKE and LG&E)

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, $7 million in incremental operation and maintenance expenses related to the storm restoration. An order was received in December 2011 granting the request, while the recovery of the regulatory asset will be determined within the current base rate case discussed above in "Rate Case Proceedings".

Pennsylvania Activities

(PPL and PPL Electric)

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for this phase of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. In December 2011, the PUC issued a final order providing guidance to Electric Distribution Companies (EDCs) on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. In March 2012, the PUC entered a final order on the intermediate work plan, issued three possible models for the default service "end state" and held a hearing regarding those three models. In September 2012, the PUC issued a Secretarial Letter setting forth an "RMI End State Proposal" for discussion. The PUC is expected to issue a tentative implementation order in early November 2012, following which parties will have 30 days to provide comment. A final implementation order is expected to be issued in the first quarter of 2013. PPL and PPL Electric cannot predict the outcome of the investigation or its impact on their financial condition, or results of operations.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation authorizing the PUC to approve regulatory procedures and mechanisms to provide more timely recovery of a utility's costs. In the first quarter of 2012, the Governor signed an amended version of the legislation (Act 11 of 2012), which became effective April 14, 2012. The legislation authorizes the PUC to approve two specific ratemaking mechanisms -- a fully projected future test year and, subject to certain conditions, a distribution system improvements charge (DSIC). Such alternative ratemaking procedures and mechanisms are important to PPL Electric as it begins a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11 of 2012. In September 2012, PPL Electric filed its Long Term Infrastructure Improvement Plan (LTIIP) describing projects eligible for inclusion in the DSIC. In October 2012, several parties filed comments to the LTIIP but none of the comments requested evidentiary hearings on the LTIIP. A decision on the LTIIP is expected in January 2013. PPL Electric expects to file a petition requesting permission to establish a DSIC in January 2013, with rates proposed to be effective in April 2013.

Rate Case Proceeding

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

ACT 129

Act 129 requires Pennsylvania EDCs to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to reduce overall electricity consumption by 1.0% by May 2011 and 3.0% by May 2013, and reduce peak demand by 4.5% for the 100 hours of highest demand by May 2013 (which is determined by actual demand reduction during the June 2012 through September 2012 period). EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The PUC has confirmed that PPL Electric has met the 2011 requirement.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 and adopt additional reductions if the benefits of the program exceed the costs. In March 2012, the PUC began the process of designing Phase II of the EE&C program. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program, ending May 31, 2016, with consumption reduction targets for each EDC. PPL Electric's reduction target is 2.1%. The PUC did not establish any demand reduction targets for the Phase II program. In August 2012 PPL Electric filed a Petition for Reconsideration of the PUC's Order, which the PUC denied. In August 2012, PPL Electric also filed a Petition for an Evidentiary Hearing regarding its consumption reduction target. The PUC assigned the petition to an ALJ. A hearing on the petition was held on October 18, 2012. The ALJ will certify the record of the hearing to the PUC for a decision. EDCs must file Phase II plans with the PUC by November 15, 2012. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of the load unless otherwise approved by the PUC. The DSP will be able to recover the costs associated with a competitive procurement plan.

The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric continues to procure power for its PLR obligations under that plan.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. The PUC assigned PPL Electric's plan to an ALJ. Hearings were held in September 2012 and a recommended decision is expected in the fourth quarter of 2012. The PUC is expected to rule on the plan in early 2013.

Storm Costs

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

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

Transmission Service Charge Adjustment (PPL Electric)

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

Federal Matters (PPL and PPL Electric)

FERC Formula Rates

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism.

In May 2010, PPL Electric initiated its formula rate 2010 Annual Update. In November 2010, a group of municipal customers taking transmission service in PPL Electric's transmission zone filed a preliminary challenge to the update and, in December 2010, filed a formal challenge. In August 2011, the FERC issued an order substantially rejecting the formal challenge and accepting PPL Electric's 2010 Annual Update. The group of municipal customers filed a request for rehearing of that order.

In May 2011, PPL Electric initiated its formula rate 2011 Annual Update. In October 2011, the group of municipal customers filed a preliminary challenge to the update and, in December 2011, filed a formal challenge. In January 2012, PPL Electric filed a response to that formal challenge. In September 2012, the FERC issued an order setting for evidentiary hearings a number of issues raised in the 2010 formal challenge and a number of issues raised in the 2011 formal challenge. The FERC held the hearings in abeyance for settlement judge proceedings and assigned a settlement judge. PPL Electric filed a request for rehearing of the September 2012 order in late October 2012. An initial settlement meeting will be scheduled in November 2012.

In May 2012, PPL Electric initiated its formula rate 2012 Annual Update which currently is in the 180-day review and challenge period. In October 2012, the group of municipal customers filed a preliminary challenge to the 2012 Annual Update. PPL Electric will meet with representatives of the customers in an attempt to resolve the challenge. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings, which remain pending before the FERC.

In March 2012, PPL Electric filed a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. A regulatory asset of approximately $50 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheets at September 30, 2012 and December 31, 2011. In May 2012, the FERC issued an order approving PPL Electric's request effective June 1, 2012.

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

WPD has a $172 million liability recorded at September 30, 2012 compared with $170 million at December 31, 2011, calculated in accordance with Ofgem's accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology to be used by all network operators to calculate the final line loss incentive/penalty for DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013 together with a proposal to remove the line loss incentive/penalty for DPCR5. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. PPL cannot predict the outcome of this matter.

European Market Infrastructure Regulation

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

7. Financing Activities

Credit Arrangements and Short-term Debt

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

The Registrants maintain credit facilities to enhance liquidity, provide credit support, and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

		September 30, 2012				December 31, 2011	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backstop
PPL							
WPD Credit Facilities							
PPL WW Syndicated							
Credit Facility (b)	Jan. 2013	£ 150	£ 107	n/a	£ 43	£ 111	n/a
WPD (South West)							
Syndicated Credit Facility (c)	Jan. 2017	245		n/a	245		n/a
WPD (East Midlands)							
Syndicated Credit Facility	Apr. 2016	300			300		£ 70
WPD (West Midlands)							
Syndicated Credit Facility	Apr. 2016	300			300		71
Uncommitted Credit Facilities		84		£ 4	80		3
Total WPD Credit Facilities (d)		£ 1,079	£ 107	£ 4	£ 968	£ 111	£ 144
PPL Energy Supply							
Syndicated Credit Facility (e)	Oct. 2016	$ 3,000		$ 468	$ 2,532		$ 541
Letter of Credit Facility	Mar. 2013	200	n/a	126	74	n/a	89
Uncommitted Credit Facilities (f)		175	n/a	32	143	n/a	n/a
Total PPL Energy Supply Credit Facilities		$ 3,375		$ 626	$ 2,749		$ 630
PPL Electric							
Syndicated Credit Facility (e) (g)	Oct. 2016	$ 300		$ 1	$ 299		$ 1

Asset-backed Credit Facility (h)	Sept. 2013	100	n/a	100		n/a
Total PPL Electric Credit Facilities		$ 400	$ 1	$ 399		$ 1
LG&E						
Syndicated Credit Facility (e)	Oct. 2016	$ 400		$ 400		
KU						
Syndicated Credit Facility (e)	Oct. 2016	$ 400		$ 400		
Letter of Credit Facility (i)	Apr. 2014	198	$ 198		n/a	$ 198
Total KU Credit Facilities		$ 598	$ 198	$ 400		$ 198

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) The amount outstanding at September 30, 2012 was a USD-denominated borrowing of $171 million, which equated to £107 million at the time of borrowing and bore interest at 0.8818%.

(c) In January 2012, WPD (South West) entered into a £245 million 5-year syndicated credit facility to replace the previous £210 million 3-year syndicated credit facility that was set to expire in July 2012. Under the facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility and borrowings bear interest at LIBOR-based rates plus a margin. The credit facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

(d) At September 30, 2012, the U.S. dollar equivalent of unused capacity under WPD's credit facilities was $1.5 billion.

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

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

(g) In April 2012, PPL Electric increased the capacity of its syndicated credit facility from $200 million.

(h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At September 30, 2012 and December 31, 2011, $240 million and $251 million of accounts receivable and $80 million and $98 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at September 30, 2012, the amount available for borrowing under the facility was $100 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2012, PPL Electric and the subsidiary reduced the capacity from $150 million and in September 2012 extended the agreement to September 2013.

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

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 2012, PPL Energy Supply has not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2016, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at September 30, 2012.

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from $500 million to $750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At September 30, 2012, PPL Energy Supply had $355 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.48%.

(PPL and PPL Electric)

In May 2012, PPL Electric increased the capacity of its commercial paper program from $200 million to $300 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2012.

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by LG&E's and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at September 30, 2012.

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

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 591 thousand shares of PPL common stock. Settlement of the subsequent forward sale agreements will occur in July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of $27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See Note 4 for information on the forward sale agreements impact on the calculation of diluted EPS.

In April 2012, WPD (East Midlands) issued £100 million aggregate principal amount of 5.25% Senior Notes due 2023. WPD (East Midlands) received proceeds of £111 million, which equated to $178 million at the time of issuance, net of underwriting fees. The net proceeds were used for general corporate purposes.

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

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

In October 2012, PPL Capital Funding issued $400 million of 3.50% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of $397 million, net of a discount and underwriting fees, which will be used to repay short-term debt obligations, including commercial paper borrowings, and for general corporate purposes.

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

(PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 8 for information on the transaction and the long-term debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

(PPL and PPL Electric)

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

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

(PPL and LKE)

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

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In August 2012, PPL declared its quarterly common stock dividend, payable October 1, 2012, at 36.0 cents per share (equivalent to $1.44 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

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

During the nine months ended September 30, 2012, the following distributions and capital contributions occurred:

	PPL Energy Supply	LKE	LG&E	KU

		PPL Electric			
Dividends/distributions paid to parent/member	$ 733	$ 75	$ 95	$ 47	$ 68
Capital contributions received from parent/member	472	150			

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

8. Acquisitions, Development and Divestitures

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

The Registrants periodically evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are periodically reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

Acquisitions

Ironwood Acquisition (PPL and PPL Energy Supply)

On April 13, 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of all of the equity interests of two subsidiaries of The AES Corporation, AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. See Note 11 in PPL's and PPL Energy Supply's 2011 Form 10-K for additional information on the tolling agreement. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

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

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

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

Preliminary Purchase Price Allocation

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

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

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

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

(c) Goodwill is currently estimated to be insignificant.

At the date of acquisition, total future minimum lease payments to be made by PPL EnergyPlus to PPL Ironwood, LLC under the tolling agreement were $270 million. These payments, which were included in the total minimum lease payments disclosed in Note 11 of PPL's and PPL Energy Supply's 2011 Form 10-K, will continue to be made by PPL EnergyPlus to PPL Ironwood, LLC following the acquisition, but will eliminate in consolidation.

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

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

Acquisition of WPD Midlands (PPL)

See Notes 1 and 10 in PPL's 2011 Form 10-K for information on PPL's April 1, 2011 acquisition of WPD Midlands.

Separation Benefits - U.K. Regulated Segment

In connection with the 2011 acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional operating structure to a regional operating structure requiring a smaller combined support structure, reducing duplication and implementing more efficient procedures. More than 700 employees of WPD Midlands will have received separation benefits as a result of the reorganization by the end of 2012.

Separation benefits totaling $104 million, pre-tax, were associated with the reorganization. For the three and nine months ended September 30, 2011, $84 million of separation benefits were recorded, of which $41 million related to severance compensation and $43 million related to Early Retirement Deficiency Costs (ERDC). The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheets. Severance compensation of $7 million and ERDC of $2 million also were recorded in the fourth quarter of 2011. All separation benefits are included in "Other operation and maintenance" on the Statements of Income.

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

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

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

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

Pro forma Information

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

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

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes), which was not significant, was excluded from the pro forma amounts above.

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

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

(a) The 2011 Bridge Facility costs, primarily commitment and structuring fees, were incurred to establish a bridge facility for purposes of funding the WPD Midlands acquisition purchase price.
(b) The 2011 Bridge Facility was denominated in GBP. The amount includes a $42 million foreign currency loss on PPL Capital Funding's repayment of its 2011 Bridge Facility borrowing and a $15 million foreign currency loss associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility.
(c) The repayment of borrowings on the 2011 Bridge Facility was economically hedged to mitigate the effects of changes in foreign currency exchange rates with forward contracts to purchase GBP, which resulted in net hedge gains.
(d) The hedge ineffectiveness includes a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing, both associated with the acquisition financing.
(e) The U.K. stamp duty tax represents a tax on the transfer of ownership of property in the U.K. incurred in connection with the acquisition.
(f) See "Separation Benefits - U.K. Regulated Segment" above.
(g) Primarily includes acquisition-related advisory, accounting and legal fees.

Terminated Bluegrass CTs Acquisition (PPL, LKE, LG&E and KU)

In September 2011, LG&E and KU entered into an asset purchase agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of $110 million, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the asset purchase agreement termination and potential future generation capacity options.

Development

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

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site in Kentucky. In May 2012, the KPSC issued an order approving the request. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million.

In conjunction with this construction and to meet new, more stringent federal EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring six older coal-fired electric generating units at the Cane Run, Green River and Tyrone plants, which have a combined summer capacity rating of 797 MW. See Note 6 for additional information.

Bell Bend COLA (PPL and PPL Energy Supply)

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to $162 million through 2012 on the COLA and other permitting costs (including land costs) necessary for construction. At September 30, 2012 and December 31, 2011, $148 million and $131 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application. PPL Bell Bend remains active in the DOE loan guarantee application process. See Note 8 in PPL's and PPL Energy Supply's 2011 Form 10-K for additional information.

Susquehanna-Roseland Transmission Line (PPL and PPL Electric)

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation. Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities. An appeal of the New Jersey Board of Public Utilities approval is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of any further legal challenges to the project. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL and PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line.

At September 30, 2012, PPL Electric's estimated share of the project cost was $560 million, an increase from approximately $500 million at December 31, 2011, due primarily to increased material costs.

See Note 8 in PPL's and PPL Electric's 2011 Form 10-K for additional information.

9. Defined Benefits

(PPL, PPL Energy Supply and PPL Electric)

Prior to January 1, 2012, the majority of PPL's Montana and Pennsylvania employees were eligible for pension benefits under PPL Montana's cash balance pension plan or PPL's qualified and non-qualified non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, these plans were closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under these plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 will be eligible to participate in the new PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching.

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

Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2012	2011	2012	2011	2012	2011	2012	2011
PPL								
Service cost	$ 25	$ 24	$ 13	$ 14	$ 77	$ 71	$ 40	$ 31
Interest cost	55	54	85	88	165	163	254	200
Expected return on plan assets	(65)	(61)	(115)	(103)	(195)	(184)	(340)	(243)

Amortization of:								
Prior service cost	6	6	1	1	18	18	3	3
Actuarial (gain) loss	11	7	19	15	32	21	59	44
Net periodic defined benefit costs (credits) prior to termination benefits	32	30	3	15	97	89	16	35
Termination benefits (a)				45				47
Net periodic defined benefit costs (credits)	$ 32	$ 30	$ 3	$ 60	$ 97	$ 89	$ 16	$ 82

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

	Pension Benefits			
	Three Months		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply				
Service cost	$ 1	$ 1	$ 4	$ 3
Interest cost	2	1	6	5
Expected return on plan assets	(2)	(2)	(7)	(6)
Amortization of:				
Actuarial (gain) loss	1	1	2	2
Net periodic defined benefit costs (credits)	$ 2	$ 1	$ 5	$ 4
LKE				
Service cost	$ 5	$ 6	$ 16	$ 18
Interest cost	16	16	48	50
Expected return on plan assets	(17)	(16)	(52)	(48)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial (gain) loss	5	6	16	17
Net periodic defined benefit costs (credits)	$ 11	$ 14	$ 32	$ 41
LG&E				
Service cost			$ 1	$ 1
Interest cost	$ 4	$ 4	11	11
Expected return on plan assets	(5)	(4)	(14)	(13)
Amortization of:				
Prior service cost	1		2	1
Actuarial (gain) loss	3	3	8	9
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 8	$ 9

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2012	2011	2012	2011
PPL				
Service cost	$ 3	$ 3	$ 9	$ 9
Interest cost	7	9	23	25
Expected return on plan assets	(6)	(6)	(17)	(17)
Amortization of:				
Transition obligation			1	1
Prior service cost	1		1	
Actuarial (gain) loss	1	1	3	4
Net periodic defined benefit costs (credits)	$ 6	$ 7	$ 20	$ 22
LKE				
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	3	3	7	8
Expected return on plan assets	(1)	(1)	(3)	(3)
Amortization of:				
Transition obligation			1	1

Prior service cost		1	2	2
Actuarial (gain) loss			(1)	
Net periodic defined benefit costs (credits)	$ 3	$ 4	$ 9	$ 11

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

In addition to the specific plans they sponsor, PPL Energy Supply subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense.

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

Expected Cash Flows - U.K. Pension Plans

(PPL)

At September 30, 2012, WPD's expected pension contributions for 2012 are $344 million compared with $161 million as disclosed in PPL's 2011 Form 10-K. During the nine months ended September 30, 2012, contributions of $302 million were made. The additional contributions are being made to prepay future contribution requirements to fund pension plan deficits.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL and PPL Energy Supply)

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

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted 13 of its 14 planned competitive solicitations. The solicitations include a mix of short-term and long-term purchases, ranging from five months to ten years, to fulfill PPL Electric's obligation to provide for customer supply as a PLR. In May 2012, PPL Electric filed a plan with the PUC to purchase its electric supply for default customers for the period June 2013 through May 2015. The plan proposes to procure this electricity twice a year, beginning in April 2013.

(PPL Energy Supply and PPL Electric)

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

Legal Matters

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

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

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

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may increase or decrease the ultimate construction price. During 2009 and 2010, the TC2 Owners received contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the TC2 Owners and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010 under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, the TC2 Owners took care, custody and control of TC2 in January 2011. Pursuant to certain amendments to the construction agreement, the contractor has made and may be required to make additional modifications to the combustion or other systems to allow operation of TC2 on all specified fuels categories. The provisions of the construction agreement relating to liquidated damages were also amended. In September 2011, the TC2 Owners and the construction contractor entered into subsequent adjustments to the construction agreement addressing, among other matters, certain historical change order, labor rate and prior period liquidated damages amounts. The remaining issues and disputes, including the nature and status of modifications to the combustion and other systems, plus certain potential warranty matters, are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

WKE Indemnification (PPL and LKE)

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

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts accrued interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods. In March 2010, the Montana Supreme Court substantially affirmed the 2008 Montana District Court decision.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 the U.S. Supreme Court issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011, PPL Montana reversed its total loss accrual of $89 million ($53 million after-tax) which had been recorded prior to the U.S. Supreme Court decision. PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. In March 2012, the case was returned to the Montana Supreme Court and in April 2012 remanded to the Montana First Judicial District Court. Further proceedings have not yet been scheduled by the District Court. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell the electricity previously contracted to SMGT under the SMGT Contract to other customers.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately $21 million at September 30, 2012, which has been fully reserved.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately $375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract. No assurance can be given as to the collectability of the claim.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

Notice of Intent to Sue Colstrip Owners

On July 30, 2012, PPL Montana received a Notice of Intent to Sue for violations of the Clean Air Act at Colstrip Steam Electric Station (Notice) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received on October 1, 2012. The Notice, Amended Notice and Second Amended Notice were all addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern Energy and PacifiCorp. The Notice alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements. The Amended Notice alleges additional opacity violations at Colstrip, and the Second Amended Notice alleges additional Title V violations. All three notices state that Sierra Club and MEIC will request a United States District Court to impose injunctive relief and civil penalties, require a beneficial environmental project in the areas affected by the alleged air pollution and require reimbursement of Sierra Club's and MEIC's costs of litigation and attorney's fees. Under the Clean Air Act, lawsuits cannot be filed until 60 days after the applicable notice date. PPL is evaluating the allegations set forth in the Notice, Amended Notice and Second Amended Notice, and cannot at this time predict the outcome of this matter.

Regulatory Issues

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

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. Final rules on major provisions in the Dodd-Frank Act are being established through rulemakings. The rulemakings are scheduled to become effective at different times beginning on the October 12, 2012 effective date of the definitional rule for the term "swap". In particular, the CFTC's Final Rule (Final Rule), defining key terms such as "swap dealer" and "major swap participant", took effect with the effectiveness of the swap definitional rule. The heightened thresholds and requirements for these entity classifications set forth in the Final Rule resulted in the Registrants currently being designated neither swap dealers nor major swap participants. The Dodd-Frank Act and its implementing regulations, however, will impose on the Registrants significant additional and costly recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they or their counterparties are subject to capital or margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act and its implementing regulations. At this time, the Registrants cannot predict the full impact that the law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but could incur material costs related to compliance with the Dodd-Frank Act.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as the generation that may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. Several parties have filed appeals of the FERC's order. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. In October 2011, the court denied the BPU's motion to dismiss the proceeding. In September 2012, the court denied all summary judgment motions, and the litigation is continuing. Trial has been scheduled for January 17, 2013. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding and the litigation is continuing. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence. At June 30, 2012, there were two remaining claims against PPL Energy Supply totaling $73 million. In July 2012, PPL Montana and the City of Tacoma, one of the parties claiming refunds at FERC, reached a settlement whereby PPL Montana would pay $75 thousand to resolve the City of Tacoma's $23 million claim, $9 million of which represents interest. The settlement does not resolve the remaining claim outstanding at September 30, 2012 of approximately $50 million.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

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

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E and KU and PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E, KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern region and PPL's market-based rate update for the Western region. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted FERC market-based rate authority may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Energy Policy Act of 2005 - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards. The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any RFC or SERC determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

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

Settled Litigation (PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

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

Environmental Matters - Domestic

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

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

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

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

Air

CSAPR (formerly Clean Air Transport Rule)

In July 2011, the EPA adopted the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous CAIR which was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR, CSAPR only applied to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania.

The CSAPR was meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR established new sulfur dioxide and nitrogen oxide emission allowance cap-and-trade programs that were more restrictive than previously under CAIR. The CSAPR provided for two-phased programs of sulfur dioxide and nitrogen oxide emissions reductions, with initial reductions in 2012 and more stringent reductions in 2014.

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In August 2012 the Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. That ruling will not become effective until the Court rules on a pending motion for rehearing. A further revised rule is not expected from the EPA for at least two years.

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

PPL Energy Supply's fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under the CAIR, PPL Energy Supply will need to buy allowances and/or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CAIR for its Pennsylvania and Kentucky plants, PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas that are in attainment or are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. In June 2012, the EPA proposed a rule that strengthens the particulate standards. States would have until 2014 to identify initial non-attainment areas and have until 2020 to achieve attainment status for those areas. States could request an extension to 2025 to comply with the rule. Until the particulate matter (PM) rule is finalized and the sulfur dioxide maintenance and compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict which of their facilities may be located in a non-attainment area and what measures would be required to meet attainment status.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR, the Mercury and Air Toxic Standards (MATS), or the Regional Haze requirements, such as upgraded or new sulfur dioxide scrubbers at some of their plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants, will help achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant.

Mercury and Other Hazardous Air Pollutants

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule is being challenged by industry groups and states.

The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet the provisions of the proposed rule, LG&E and KU filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. See Note 6 for information on LG&E's and KU's anticipated retirement of certain coal-fired electric generating units in response to this and other environmental regulation. With the publication of the final MATS rule, LG&E and KU are currently assessing whether changes in the final rule warrant revision of their approved compliance plans.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that certain coal-fired plants may require installation of chemical additive systems, the cost of which is not expected to be significant. With respect to PPL Energy Supply's Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. For the Corette plant, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant's carrying value at September 30, 2012 was approximately $67 million. Although the Corette plant was not determined to be impaired at September 30, 2012, it is reasonably possible that an impairment charge could be recorded in the fourth quarter of 2012 or in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

Regional Haze and Visibility

In January 2012, the EPA proposed limited approval of the Pennsylvania regional haze State Implementation Plan (SIP). That proposal would essentially approve PPL's analysis that further particulate controls at PPL Energy Supply's Pennsylvania plants are not warranted. The limited approval does not address deficiencies of the state plan arising from the remand of the CAIR rule. Previously, the EPA had determined that implementation of the CAIR requirements would meet regional haze

Best Available Retrofit Technology (BART) requirements for sulfur dioxide and nitrogen oxides. In 2012, the EPA finalized a rule providing that implementation of the CSAPR would also meet the BART. This rule also addresses the Pennsylvania SIP deficiency arising from the CAIR remand; however, in August 2012, the U.S. Court of Appeals for the District of Columbia Circuit (Court) vacated and remanded the CSAPR back to the EPA for further rulemaking. In September 2012, several environmental groups filed a petition for review with the Court challenging the EPA's approval of the Pennsylvania SIP. At this time, it is not known whether the EPA will reinstate its previous determination that CAIR satisfies the BART requirement or will require states to conduct source-specific BART studies.

In Montana, the EPA Region 8 developed the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART SIP at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. PPL has also submitted data and analyses of various air emission control options under the rules to reduce air emissions related to the non-BART-affected emission sources of Colstrip Units 3 and 4. The analyses show that any incremental reductions would not be cost-effective and that further analysis is not warranted.

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

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze SIP to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4, the costs of which are not expected to be significant. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's air permit under Title V, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions.

New Source Review (NSR)

The EPA has continued its NSR enforcement efforts targeting coal-fired generating plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received in the early 2000s for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. In May 2012, PPL Montana received an information request regarding projects undertaken during the Spring 2012 maintenance outage at Colstrip Unit 1. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent plant without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter and a September 2007 notice of violation alleging opacity violations at the plant. The settlement is subject to various administrative and judicial approvals. PPL, LKE and KU cannot predict the outcome of this matter until a final consent decree is entered by the U.S. District Court for the Eastern District of Kentucky, but currently do not expect such outcome to result in material losses above the amounts accrued by KU.

If PPL subsidiaries are found to have violated NSR regulations, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired generating plants. See "Legal Matters" above for information on a notice of intent to sue received in July 2012 by PPL Montana and other owners of Colstrip. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict whether such actions will be brought against any of their other plants.

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

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

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

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010, the EPA and the U.S. Department of Transportation issued light-duty vehicle emissions standards that apply to 2012 model year vehicles. The EPA has also clarified that this standard, beginning in 2011, also authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase requires the BACT permit limits for GHGs. These rules were challenged, and in June 2012 the U.S. Court of Appeals for the District of Columbia Circuit upheld the EPA's regulations.

In addition, in April 2012, the EPA proposed New Source Performance Standards for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon-dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to achieve these limitations and, as a result, the EPA's proposal would effectively preclude construction of new coal-fired generation in the future.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction, by 2019, in carbon dioxide emissions from base levels.

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL and PPL Energy Supply cannot predict at this time whether this legislation will be enacted.

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

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date, the state has not issued a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In addition, in Comer v. Murphy Oil (Comer case), the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Fifth Circuit's ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the Mississippi federal court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiffs' claims were displaced by the Clean Air Act, and other grounds. In April 2012, plaintiffs filed a notice of appeal in the Fifth Circuit. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

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

There has been interest in renewable energy legislation at both the state and federal levels. In the 112th Congress, the Clean Energy Standard Act of 2012 (S.2146) was introduced which would mandate electric utilities to supply 24% of their electricity sales from qualified resources by 2015, increasing 3% per year up to 84% by 2035. This legislation will not likely be addressed in the remaining days of this Congress. In Pennsylvania, bills were introduced in both the Senate and House amending the existing Alternative Energy Portfolio Standard to accelerate the current solar obligation, but no action was taken before the end of the 2011-2012 legislative session.

PPL and PPL Energy Supply believe there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on PPL and PPL Energy Supply can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy sources. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their future competitive position, results of operation, cash flows and financial position of renewable energy mandates that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would materially increase costs and result in early retirements of many coal-fired plants, as it would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through generation, transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. In addition, the U.S. House of Representatives in September 2012 approved a bill that was revised in the Senate to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and to preclude the EPA from regulating CCRs under Subtitle C of the RCRA. This revised bill is being considered in the Senate, and the prospect for passage of this legislation is uncertain.

In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a deadline for the EPA to issue strict CCR regulations. In February 2012, two CCR recycling companies also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but they requested that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs. The coalition filed its lawsuit in April 2012 and litigation is continuing.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the financial impact could be material if regulated as a hazardous waste under Subtitle C and significant if regulated under Subtitle D.

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

In 2005, approximately 100 million gallons of water containing fly ash was released from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage Assessment report to the court and to the interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL filed separate responses with the court. In March 2012, the court dismissed the interveners' case, but the interveners have appealed the dismissal to the Pennsylvania Supreme Court. The settlement agreement for the Natural Resources Damage Claim has not yet been submitted for public comments, which is the next phase in the process of finalizing the claim.

Through September 30, 2012, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the nature of any other regulatory or legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in significant losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

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

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from plant wastewater ponds. A settlement agreement was reached in July 2010, which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs appealed the October 2011 order to the Montana Supreme Court, and the court's decision is expected in the second half of 2012. Therefore, the settlement ordered by the district court is not final. PPL and PPL Energy Supply cannot predict the outcome of the appeal, although PPL Montana's share of any final settlement is not expected to be significant.

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

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

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

Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating plants are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule on new or modified cooling water intake structures in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA is evaluating comments and meeting with industry groups to discuss options. Two NODAs have been issued on the rule that indicate the EPA may be willing to amend the rule based on certain industry group comments and the EPA's comment period on the NODAs has ended. The final rule is expected to be issued in 2013. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors, including impacts to energy delivery reliability and the remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, until a final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

Effluent Limitations Guidelines and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. The EPA is expected to issue the final regulations in 2014. PPL, PPL Energy Supply, LKE, LG&E and KU expect the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater and ash basin discharges, which could result in more stringent discharge permit limits. In the interim, states may impose more stringent limits on a case-by-case basis under existing authority as permits are renewed. Under the Clean Water Act, permits are subject to renewal every five years. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

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

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their plants, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in late 2012 or 2013. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

A PPL Energy Supply subsidiary signed a Consent Order and Agreement (COA) with the PADEP in July 2008 under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. A barrier has been constructed to prevent debris from entering the river water intake area at a cost that was not significant.

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

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

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin Circuit Court. PPL, LKE, LG&E, and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time.

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

PPL Electric is potentially responsible for costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase substantially more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU are unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish more stringent standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant additional costs for the Registrants.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At September 30, 2012, this maximum assessment was $48 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

Employee Relations (PPL, LKE and KU)

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

Guarantees and Other Assurances

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

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

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

The table below details guarantees provided at September 30, 2012. The total recorded liability at September 30, 2012 and December 31, 2011, was $24 million and $14 million for PPL and $20 million and $11 million for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

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

LKE		
Indemnification of lease termination and other divestitures	301 (m)	2021 - 2023
LG&E and KU		
LG&E and KU guarantee of shortfall related to OVEC	(n)	

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity, in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

(c) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At September 30, 2012, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.
(e) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD indemnified the lender against certain tax and other liabilities. These indemnifications expired in the second quarter of 2012.
(f) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.
(g) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.
(h) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.
(i) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.
(j) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to

the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.

(k) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser, secured by a lien on the purchaser's stock of Safe Harbor, in the event PPL Energy Supply is required to make a payment under the guarantee. The exposure noted reflects principal only.

(l) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory, thus protecting the logistics firm from reductions in the fair value of the inventory.

(m) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as government fines and penalties fall outside the cumulative cap. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. In May 2012, LKE's indemnitee received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In July 2012, LKE's indemnitee filed a judicial action in the Henderson Circuit Court, seeking to vacate the arbitration decision and will present oral arguments in November 2012. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the legal status of the court's review of the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by $9 million ($5 million after-tax), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. No additional material loss is anticipated by reason of such indemnifications.

(n) Pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess debt service, post-retirement and post-employment and decommissioning costs. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum $4 million deductible per occurrence and provides maximum aggregate coverage of $200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (PPL Energy Supply and PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. See Note 10 for additional information on the solicitations. PPL Electric's purchases from PPL EnergyPlus totaled $22 million and $60 million for the three and nine months ended September 30, 2012 and $5 million and $15 million during the same periods in 2011. The sales and purchases are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when the aggregate credit exposure with respect to electricity, capacity and other related products to be delivered by PPL EnergyPlus exceeds a contractual credit limit. Based on the current credit rating and tangible net worth of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was $35 million at September 30, 2012. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At September 30, 2012, PPL Energy Supply had a net credit exposure of $39 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Allocations of Corporate Service Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of the services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services charged the following amounts for the periods ended September 30, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense:

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

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Intercompany Billings by LKS (LG&E and KU)

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below for the periods ended September 30, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

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

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving demand notes from certain affiliates. At September 30, 2012, there were no balances outstanding. At December 31, 2011, a note with PPL Energy Funding had an outstanding balance of $198 million with an interest rate of 3.77% that was reflected in "Notes receivable from affiliates" on the Balance Sheet. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statements of Income. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest earned on borrowings was not significant for the three and nine months ended September 30, 2012 and the three months ended September 30, 2011. For the nine months ended September 30, 2011, interest earned on the borrowings was $6 million, substantially all of which was attributable to borrowings by PPL Energy Funding.

(PPL Electric)

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

(LKE)

LKE maintains a $300 million revolving demand note with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2012 and December 31, 2011, there were no balances outstanding. Interest expense incurred on the revolving demand note with the PPL Energy Supply subsidiary was not significant for the three and nine months ended September 30, 2012 and 2011.

LKE holds a note receivable from a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At September 30, 2012 and December 31, 2011, $6 million and $15 million were outstanding and were reflected in "Notes receivable from affiliates" on the Balance Sheets. The interest rates on loans are based on the PPL affiliate's credit rating and are currently equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowings at September 30, 2012 and December 31, 2011 were 2.23% and 2.27%. Interest income on the note receivable was not significant for the three and nine months ended September 30, 2012 and 2011.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2012 and December 31, 2011, there was no balance outstanding. Interest expense and interest income on the money pool agreement with LKE and/or KU was not significant for the three and nine months ended September 30, 2012 and 2011.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2012 and December 31, 2011, there was no balance outstanding. Interest expense and interest income on the money pool agreement with LKE and/or LG&E was not significant for the three and nine months ended September 30, 2012 and 2011.

Trademark Royalties (PPL Energy Supply)

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

Intercompany Insurance (PPL Electric)

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred in 2011, PPL Electric exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $26.5 million were recorded at September 30, 2011, of which $7 million and $16 million were recorded during the three and nine months ended September 30, 2011 in "Other operation and maintenance" on the Statement of Income, with the remainder recorded in PP&E on the Balance Sheet. In September 2012, PPL Electric received $26.5 million from the settlement of its 2011 claims.

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

See Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric, LG&E and KU, refer to Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

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

The breakdown of "Other Income (Expense) - net" for the periods ended September 30 was:

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL				
Other Income				
Gain on redemption of debt (a)		$ 22		$ 22
Earnings on securities in NDT funds	$ 5	2	$ 17	20
Interest income	1	1	4	5
AFUDC - equity component	2	2	7	5
Net hedge gains associated with the 2011 Bridge Facility (b)				55

Earnings (losses) from equity method investments	(1)	1	(7)	1
Miscellaneous - Domestic	3	2	8	9
Miscellaneous - U.K.	(1)		1	1
Total Other Income	9	30	30	118
Other Expense				
Economic foreign currency exchange contracts (Note 14)	47	(11)	40	(11)
Charitable contributions	1	2	7	7
WPD Midlands acquisition-related costs (Note 8)				36
Foreign currency loss on 2011 Bridge Facility (c)				57
U.K. stamp duty tax (Note 8)				21
Miscellaneous - Domestic	4	2	12	7
Miscellaneous - U.K.	1		2	3
Total Other Expense	53	(7)	61	120
Other Income (Expense) - net	$ (44)	$ 37	$ (31)	$ (2)

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

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

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

13. Fair Value Measurements and Credit Concentration

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2012, there were no transfers between Level 1 and Level 2.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								

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

	September 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	12	12			12	12		
Equity securities								
U.S. large-cap	412	307	105		357	267	90	
U.S. mid/small-cap	59	25	34		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	83		83		83		83	
Investment-grade corporate	40		40		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(3)	2			(3)	3	
Total NDT funds	711	436	275		640	384	256	
Auction rate securities (b)	19		3	16	24			24
Total assets	$ 4,473	$ 1,556	$ 2,869	$ 48	$ 5,543	$ 1,798	$ 3,687	$ 58
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,947	$ 5	$ 1,937	$ 5	$ 2,345	$ 1	$ 2,327	$ 17
Interest rate swaps	83		83		63		63	
Foreign currency contracts	36		36					
Cross-currency swaps	2		2		2		2	
Total price risk management liabilities	$ 2,068	$ 5	$ 2,058	$ 5	$ 2,410	$ 1	$ 2,392	$ 17
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 432	$ 432			$ 379	$ 379		
Restricted cash and cash equivalents (a)	98	98			145	145		
Price risk management assets:								
Energy commodities	2,604	5	$ 2,569	$ 30	3,423	3	$ 3,390	$ 30
Total price risk management assets	2,604	5	2,569	30	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	12	12			12	12		
Equity securities								
U.S. large-cap	412	307	105		357	267	90	
U.S. mid/small-cap	59	25	34		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	

Municipality	83		83		83		83	
Investment-grade corporate	40		40		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(3)	2			(3)	3	
Total NDT funds	711	436	275		640	384	256	
Auction rate securities (b)	16		3	13	19			19
Total assets	$ 3,861	$ 971	$ 2,847	$ 43	$ 4,606	$ 911	$ 3,646	$ 49
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,947	$ 5	$ 1,937	$ 5	$ 2,345	$ 1	$ 2,327	$ 17
Total price risk management liabilities	$ 1,947	$ 5	$ 1,937	$ 5	$ 2,345	$ 1	$ 2,327	$ 17
PPL Electric								
Assets								
Cash and cash equivalents	$ 31	$ 31			$ 320	$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	$ 44	$ 44			$ 333	$ 333		
LKE								
Assets								
Cash and cash equivalents	$ 90	$ 90			$ 59	$ 59		
Restricted cash and cash equivalents (e)	32	32			29	29		
Total assets	$ 122	$ 122			$ 88	$ 88		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 62		$ 62		$ 60		$ 60	
Total liabilities	$ 62		$ 62		$ 60		$ 60	

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	September 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	$ 48	$ 48			$ 25	$ 25		
Restricted cash and cash equivalents (e)	32	32			29	29		
Total assets	$ 80	$ 80			$ 54	$ 54		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 62		$ 62		$ 60		$ 60	
Total liabilities	$ 62		$ 62		$ 60		$ 60	
KU								
Assets								
Cash and cash equivalents	$ 42	$ 42			$ 31	$ 31		
Total assets	$ 42	$ 42			$ 31	$ 31		

(a) Current portion is included in "Restricted cash and cash equivalents" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Current portion is included in "Other current liabilities" and the long-term portion is included in "Price risk management liabilities" on the Balance Sheets.
(e) Included in "Other noncurrent assets" on the Balance Sheets.

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

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

Transfers into Level 3	(2)			(2)	12			12
Transfers out of Level 3	8			8	9	(3)	(3)	3
Balance at end of period	$ 25	$ 16	$ 2	$ 43	$ 25	$ 16	$ 2	$ 43
PPL Energy Supply								
Balance at beginning of period	$ 34	$ 12		$ 46	$ 13	$ 19		$ 32
Total realized/unrealized gains (losses)								
Included in earnings	(17)			(17)	(1)			(1)
Included in OCI (a)		1		1	1			1
Sales						(3)		(3)
Settlements	2			2	(9)			(9)
Transfers into Level 3	(2)			(2)	12			12
Transfers out of Level 3	8			8	9	(3)		6
Balance at end of period	$ 25	$ 13		$ 38	$ 25	$ 13		$ 38

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

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2011 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL								
Balance at beginning of period	$ 26	$ 25		$ 51	$ (3)	$ 25		$ 22
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)		$ 14	13	(1)		$ 14	13
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 24	$ 14	$ 64	$ 26	$ 24	$ 14	$ 64
PPL Energy Supply								
Balance at beginning of period	$ 26	$ 20		$ 46	$ (3)	$ 20		$ 17
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)			(1)	(1)			(1)
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 19		$ 45	$ 26	$ 19		$ 45

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

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

Quantitative Information about Level 3 Fair Value Measurements

Range

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

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

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

(c) FTR purchase contracts extend through 2015. $3 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).

(d) Auction rate securities have a weighted average contractual maturity of 23 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).

(e) Cross-currency swaps extend through 2021. The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended September 30 are reported in the Statements of Income as follows:

	Three Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PPL										
Total gains (losses) included in earnings	$ (3)	$ 6	$ (4)	$ (1)	$ (8)	$ 1	$ (2)			
Change in unrealized gains (losses) relating to positions still held at the reporting date	(2)	3	(1)		2	1		$ 1		
PPL Energy Supply										
Total gains (losses) included in earnings	$ (3)	$ 6	$ (4)	$ (1)	$ (8)	$ 1	$ (2)			
Change in unrealized gains (losses) relating to positions still held at the reporting date	(2)	3	(1)		2	1		$ 1		

	Nine Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PPL										
Total gains (losses) included in earnings	$ 16	$ 11	$ (7)	$ (5)	$ (9)	$ (2)	$ (1)	$ (2)	$ (1)	
Change in unrealized gains (losses) relating										

to positions still held at the reporting date	29	6		(6)	2	1	1	20
PPL Energy Supply								
Total gains (losses) included in earnings	$ 16	$ 11	$ (7)	$ (5)	$ (9)	$ (2)	$ (1)	$ (2)
Change in unrealized gains (losses) relating								
to positions still held at the reporting date	29	6		(6)	2	1	1	20

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

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Level 2 contracts are valued using quotes obtained from an exchange (where there is insufficient market liquidity to warrant inclusion in Level 1), binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, independent quotes are obtained from the market to validate the forward price curves. These contracts include forwards, swaps, options and structured transactions for electricity, gas, oil, and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these contracts may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a full-requirement sales contract that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. The fair value of contracts classified as Level 3 has been calculated using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information which is used by accounting personnel to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2012 and 2011 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

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

To manage interest rate risk, PPL, LKE and LG&E use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. The primary reason for the transfers during 2012 and 2011 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 Total Market Index.

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

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

The debt securities held by the NDT funds at September 30, 2012 have a weighted-average coupon of 4.19% and a weighted-average maturity of 8.3 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

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

Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Financial Instruments Not Recorded at Fair Value (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

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

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Includes "Long-term Debt" and "Long-term debt due within one year" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2. The carrying value of held-to-maturity, short-term investments at December 31, 2011 approximated fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

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

Contracts are entered into with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At September 30, 2012, PPL had credit exposure of $2.1 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $657 million. The top ten counterparties accounted for $345 million, or 52%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At September 30, 2012, PPL Energy Supply had credit exposure of $2.1 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $656 million. The top ten counterparties accounted for $345 million, or 53%, of the net exposure and all had investment grade credit ratings from S&P or Moody's. See Note 11 for information regarding the related party credit exposure.

(PPL Electric)

At September 30, 2012, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At September 30, 2012, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

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

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk is the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument. Forward contracts, futures contracts, options, swaps and structured transactions, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

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

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

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

Commodity price risk

- PPL Energy Supply is exposed to commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- PPL Electric is exposed to market and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers; and
- LG&E's and KU's rates include certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses.

Interest rate risk

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

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

Equity securities price risk

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

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

Foreign currency risk

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

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL Energy Supply is exposed to credit risk from commodity derivatives with its energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

LKE and LG&E are exposed to credit risk from interest rate derivatives with financial institutions.

The majority of credit risk stems from commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same or better prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates, thus mitigating this risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with energy trading partners.

Master Netting Arrangements

Net derivative positions are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $160 million and $147 million at September 30, 2012 and December 31, 2011.

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

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

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

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price risk, including basis and volumetric risk, is among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing and proprietary trading activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, natural gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedges and economic activity, as discussed below.

Cash Flow Hedges

Certain derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at September 30, 2012 range in maturity through 2016. At September 30, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $199 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and nine months ended September 30, 2012 and 2011, such reclassifications were insignificant.

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

Certain cash flow hedge positions were dedesignated during the nine months ended September 30, 2012. The fair value of the hedges at December 31, 2011 remained in AOCI because the original forecasted transaction is still expected to occur. Pre-tax gains (losses) of $40 million, representing the change in fair value of the remaining positions during the nine months ended September 30, 2012, were recorded in "Wholesale energy marketing unrealized economic activity" on the Statement of Income.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at September 30, 2012 range in maturity through 2019.

Examples of economic activity include hedges on sales of baseload generation, dedesignations as discussed in "Cash Flow Hedges" above, certain purchase contracts used to supply full-requirement sales contracts, FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts, spark spreads (sale of electricity with the simultaneous purchase of fuel), retail electric and natural gas activities, and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include both call and put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally limited to the cost of the generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Unrealized activity associated with monetizing certain full-requirement sales contracts was also included in economic activity during the three and nine months ended September 30, 2012 and 2011.

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

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

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from hedges of baseload generation, from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness and from dedesignations, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts in 2010. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment, from hedge ineffectiveness, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized in 2010.

Commodity Price Risk (Trading)

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. PPL Energy Supply's trading activity is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

PPL Energy Supply currently employs four primary strategies to maximize the value of its wholesale energy portfolio. As further discussed below, these strategies include the sales of competitive baseload generation, optimization of competitive intermediate and peaking generation, marketing activities, and proprietary trading activities. The tables within this section present the volumes of PPL Energy Supply's derivative activity, excluding those that qualify for NPNS, unless otherwise noted.

Sales of Competitive Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,252 MW (summer rating) of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term.

PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. The following table presents the expected sales, in GWh, from competitive baseload generation and power purchase agreements that are included in the baseload portfolio based on current forecasted assumptions for 2012-2014.

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

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

The following table presents the percentage of expected competitive baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at September 30, 2012.

Year	Derivative Sales (a)	Total Power Sales (b)	Fuel Purchases (c) Coal	Nuclear
2012 (d)	93%	100%	105%	100%
2013	88%	95%	97%	100%
2014 (e)	50%	55%	77%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Amount represents derivative (including contracts that qualify for NPNS) and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(c) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(d) Represents the balance of the current year.
(e) Volumes for derivative sales contracts that deliver in future periods total 2,710 GWh and 4.0 Bcf.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. PPL Energy Supply has also entered into contracts to financially hedge the physical sale of oil. The following table presents the net volumes, in thousands of barrels (bbls), of derivative (sales)/purchase contracts and contracts that qualify for NPNS used in support of these strategies at September 30, 2012.

	2012 (a)	2013	2014
Oil Swaps (b)	(20)	34	240

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

Optimization of Competitive Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,256 MW (summer rating) of natural gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at September 30, 2012.

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

(a) Represents the balance of the current year.
(b) Volumes for derivative contracts used in support of these strategies that deliver in future periods are insignificant.
(c) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are insignificant.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, RECs, basis and capacity contracts, used in support of these activities at September 30, 2012.

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

(a) Represents the balance of the current year.
(b) Includes contracts that are not derivatives and/or contracts that are NPNS, which receive accrual accounting.
(c) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Proprietary Trading Activity

At September 30, 2012, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that are included in the tables below, were insignificant.

Other Energy-Related Positions

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The following table represents the net volumes of derivative FTR and basis (sales)/purchase contracts at September 30, 2012.

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