

PPL Corp
 Form 10-Q
 November 07, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended
 September 30, 2014
 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

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(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 61-0247570
(Exact name of Registrant as specified in its charter)
(Kentucky and Virginia)
One Quality Street
Lexington, KY 40507-1462
(502) 627-2000

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

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

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

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

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

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PPL Corporation	Common stock, \$0.01 par value, 665,072,010 shares outstanding at October 31, 2014.
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, 2014.
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, 2014.
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, 2014.

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, 2014

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: 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 subsidiaries of PPL Corporation 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 in 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 subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

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.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital 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 financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its 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 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.

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 through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

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 to PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, a subsidiary of PPL Generation that owns a nuclear-powered generating station.

PPL WEM - PPL WEM Holdings Limited, an indirect U.K. subsidiary of PPL Global.

PPL WW - PPL WW Holdings Limited, an indirect U.K. subsidiary of PPL Global.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Subsidiary Registrant(s) - Registrants that are direct or indirect wholly owned subsidiaries of PPL: PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

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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.

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

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.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009.

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 requiring holders to purchase shares of PPL common stock on or prior to July 1, 2013.

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

2013 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2013.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that 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 changes to the AEPS.

AEPS - 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.

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

CAIR - the EPA's Clean Air Interstate Rule.

Cane Run Unit 7 - a natural gas combined-cycle unit under construction in Kentucky, jointly owned by LG&E and KU, which is expected to provide additional electric generating capacity of 640 MW (141 MW and 499 MW to LG&E and KU) in 2015.

CCR - Coal Combustion Residuals. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

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 certain plant, equipment, property or facility for the furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule.

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.

DNO - Distribution Network Operator.

DOJ - U.S. Department of Justice.

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

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 costs and revenues lost by implementing DSM 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, 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 that apply to coal combustion wastes and by-products from the production of energy from coal.

EEI - Electric Energy, Inc., owns and operates a coal-fired plant and a natural gas facility in southern Illinois. KU's 20% ownership interest in EEI is accounted for as an equity method investment.

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

EPS - earnings per share.

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

ERCOT - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

ESOP - Employee Stock Ownership Plan.

FERC - Federal Energy Regulatory Commission, the U.S. 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 that 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 between two pricing locations, known as source and sink.

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved LG&E's recovery of costs associated with gas service lines, gas risers, leak mitigation, and gas main replacements. Rate recovery became effective on January 1, 2013.

IBEW - International Brotherhood of Electrical Workers.

If-Converted Method - A method applied to calculate diluted EPS for a company with outstanding convertible debt. The method is applied as follows: Interest charges (after tax) applicable to the convertible debt are added back to net income and the convertible debt is assumed to have been converted to equity at the beginning of the period, and the resulting common shares are treated as outstanding shares. Both adjustments are made only for purposes of calculating diluted EPS. This method was applied in 2013 and 2014 to PPL's Equity Units prior to settlement.

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

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

ISO - Independent System Operator.

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

LIBOR - London Interbank Offered Rate.

LTIIIP - Long Term Infrastructure Improvement Plan.

MATS - Mercury and Air Toxics Standards.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

MMBtu - One million British Thermal Units.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

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

MPSC - Montana Public Service Commission.

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

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

NRC - Nuclear Regulatory Commission, the U.S. 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 of 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 summer rating capacities of 2,120 MW.

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

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity 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 within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

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, which are components of the 2010 and 2011 Equity Units.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index in order to allow for the effects of inflation. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures.

RCRA - Resource Conservation and Recovery Act of 1976.

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RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies changes and additions to the grid necessary to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects assigned to them by the PJM Board.

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 - ReliabilityFirst 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.

RIIO-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs - Electricity Distribution." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD commencing April 1, 2015.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and ultimate parent company of the entities that own the competitive power generation business to be contributed to Talen Energy other than the competitive power generation business to be contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

RJS Power - RJS Power Holdings LLC, a Delaware limited liability company controlled by Riverstone, that owns the competitive power generation business to be contributed, directly or indirectly, by its owners to Talen Energy other than the competitive power generation business to be contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

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.

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

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

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 has the potential to strengthen network reliability.

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

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of PPL and its subsidiaries' competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which PPL and its subsidiaries sell power and buy natural gas on a forward basis in the same contract.

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

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

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 electricity 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.

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

USWA – United Steelworkers of America.

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.

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.

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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 that 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 2013 Form 10-K and Form 10-Q for the period ended June 30, 2014 and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, 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 duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- 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;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- 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, 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;
- changes in foreign currency exchange rates for British pound sterling;
- 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;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;

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- 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 or revenue filings by PPL Electric, LG&E, KU or WPD;
- 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, including the PPL Energy Supply spinoff transaction with Riverstone and the anticipated formation of Talen Energy and our ability to realize expected benefits from such business transactions.

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Utility	\$ 1,860	\$ 1,739	\$ 5,852	\$ 5,344
Unregulated wholesale energy	1,109	913	203	2,380
Unregulated retail energy	282	263	909	755
Energy-related businesses	198	159	512	423
Total Operating Revenues	3,449	3,074	7,476	8,902
Operating Expenses				
Operation				
Fuel	452	494	1,701	1,464
Energy purchases	859	555	(284)	1,663
Other operation and maintenance	684	658	2,082	2,009
Depreciation	307	284	913	845
Taxes, other than income	92	86	283	261
Energy-related businesses	186	151	492	403
Total Operating Expenses	2,580	2,228	5,187	6,645
Operating Income	869	846	2,289	2,257
Other Income (Expense) - net	144	(117)	38	18
Interest Expense	258	244	775	747
Income from Continuing Operations Before Income Taxes	755	485	1,552	1,528
Income Taxes	265	81	520	329
Income from Continuing Operations After Income Taxes	490	404	1,032	1,199
Income (Loss) from Discontinued Operations (net of income taxes)	7	7	10	30
Net Income	497	411	1,042	1,229
Net Income Attributable to Noncontrolling Interests		1		1

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Net Income Attributable to PPL Shareowners	\$	497	\$	410	\$	1,042	\$	1,228
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Amounts Attributable to PPL Shareowners:

Income from Continuing Operations After Income Taxes	\$	490	\$	403	\$	1,032	\$	1,198
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Income (Loss) from Discontinued Operations (net of income taxes)		7		7		10		30
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Net Income	\$	497	\$	410	\$	1,042	\$	1,228
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Earnings Per Share of Common Stock:

Income from Continuing Operations After
Income Taxes Available to PPL

Common Shareowners:

Basic	\$	0.73	\$	0.64	\$	1.58	\$	1.98
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Diluted	\$	0.73	\$	0.61	\$	1.56	\$	1.86
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Net Income Available to PPL Common
Shareowners:

Basic	\$	0.74	\$	0.65	\$	1.60	\$	2.03
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Diluted	\$	0.74	\$	0.62	\$	1.57	\$	1.90
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Dividends Declared Per Share of Common Stock	\$	0.3725	\$	0.3675	\$	1.1175	\$	1.1025
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Weighted-Average Shares of Common Stock

Outstanding (in thousands)

Basic	664,432	631,046	649,561	601,275
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Diluted	666,402	664,343	665,501	662,094
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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,	
	2014	2013	2014	2013
Net income	\$ 497	\$ 411	\$ 1,042	\$ 1,229
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$9), \$8, (\$3), \$1	(48)	87	80	(165)
Available-for-sale securities, net of tax of \$1, (\$15), (\$20), (\$42)	(1)	15	18	40
Qualifying derivatives, net of tax of \$2, \$2, \$31, (\$41)	(5)	(9)	(52)	77
Defined benefit plans:				
Net actuarial gain (loss), net of tax of (\$1), \$0, \$1, \$0	(1)		(3)	
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$4, \$1, \$6, \$2	(3)		(5)	(2)
Qualifying derivatives, net of tax of \$3, \$11, \$4, \$68	(12)	(6)	2	(122)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0		(1)		(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$3), (\$3)	1	2	3	5
Net actuarial loss, net of tax of (\$9), (\$12), (\$26), (\$37)	29	33	84	101
Total other comprehensive income (loss) attributable to PPL Shareowners	(40)	121	127	(67)
Comprehensive income (loss)	457	532	1,169	1,162
Comprehensive income attributable to noncontrolling interests		1		1
Comprehensive income (loss) attributable to PPL Shareowners	\$ 457	\$ 531	\$ 1,169	\$ 1,161

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,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 1,042	\$ 1,229
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	930	859
Amortization	168	164
Defined benefit plans - expense	71	135
Deferred income taxes and investment tax credits	266	301
Unrealized (gains) losses on derivatives, and other hedging activities	117	126
Adjustment to WPD line loss accrual	65	45
Stock compensation expense	52	45
Other	38	2
Change in current assets and current liabilities		
Accounts receivable	(29)	(79)
Accounts payable	(126)	(140)
Unbilled revenues	163	197
Fuel, materials and supplies	(60)	(14)
Counterparty collateral	(18)	(77)
Taxes payable	208	76
Uncertain tax positions	1	(104)
Other	(5)	(89)
Other operating activities		
Defined benefit plans - funding	(322)	(505)
Other assets	8	(59)
Other liabilities	59	111
Net cash provided by operating activities	2,628	2,223
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,878)	(2,768)
Expenditures for intangible assets	(74)	(61)
Purchases of nuclear plant decommissioning trust investments	(124)	(102)
Proceeds from the sale of nuclear plant decommissioning trust investments	112	92
Proceeds from the receipt of grants	164	5
Net (increase) decrease in restricted cash and cash equivalents	(187)	13
Other investing activities	13	33
Net cash provided by (used in) investing activities	(2,974)	(2,788)
Cash Flows from Financing Activities		

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Issuance of long-term debt	296	862
Retirement of long-term debt	(545)	(309)
Repurchase of common stock		(74)
Issuance of common stock	1,037	1,409
Payment of common stock dividends	(718)	(645)
Debt issuance and credit facility costs	(21)	(37)
Contract adjustment payments	(21)	(72)
Net increase (decrease) in short-term debt	398	(148)
Other financing activities	(7)	(20)
Net cash provided by (used in) financing activities	419	966
Effect of Exchange Rates on Cash and Cash Equivalents	13	(11)
Net Increase (Decrease) in Cash and Cash Equivalents	86	390
Cash and Cash Equivalents at Beginning of Period	1,102	901
Cash and Cash Equivalents at End of Period	\$ 1,188	\$ 1,291

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,188	\$ 1,102
Restricted cash and cash equivalents	274	83
Accounts receivable (less reserve: 2014, \$48; 2013, \$64)		
Customer	911	923
Other	139	97
Unbilled revenues	676	835
Fuel, materials and supplies	763	702
Prepayments	117	153
Deferred income taxes	242	246
Price risk management assets	732	942
Assets of discontinued operations	647	
Regulatory assets	28	33
Other current assets	43	37
Total Current Assets	5,760	5,153
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	36	43
Total Investments	947	907
Property, Plant and Equipment		
Regulated utility plant	30,169	27,755
Less: accumulated depreciation - regulated utility plant	5,315	4,873
Regulated utility plant, net	24,854	22,882
Non-regulated property, plant and equipment		
Generation	11,179	11,881
Nuclear fuel	624	591
Other	869	834
Less: accumulated depreciation - non-regulated property, plant and equipment	6,323	6,172
Non-regulated property, plant and equipment, net	6,349	7,134
Construction work in progress	3,194	3,071
Property, Plant and Equipment, net	34,397	33,087
Other Noncurrent Assets		
Regulatory assets	1,253	1,246
Goodwill	4,187	4,225
Other intangibles	936	947

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Price risk management assets	366	337
Other noncurrent assets	343	357
Total Other Noncurrent Assets	7,085	7,112
Total Assets	\$ 48,189	\$ 46,259

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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,099	\$ 701
Long-term debt due within one year	235	315
Accounts payable	1,208	1,308
Taxes	281	114
Interest	354	325
Dividends	248	232
Price risk management liabilities	897	829
Regulatory liabilities	92	90
Other current liabilities	998	998
Total Current Liabilities	5,412	4,912
Long-term Debt	20,522	20,592
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,423	3,928
Investment tax credits	161	342
Price risk management liabilities	377	415
Accrued pension obligations	952	1,286
Asset retirement obligations	739	687
Regulatory liabilities	1,028	1,048
Other deferred credits and noncurrent liabilities	601	583
Total Deferred Credits and Other Noncurrent Liabilities	8,281	8,289
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	6
Additional paid-in capital	9,388	8,316
Earnings reinvested	6,017	5,709
Accumulated other comprehensive loss	(1,438)	(1,565)
Total Equity	13,974	12,466
Total Liabilities and Equity	\$ 48,189	\$ 46,259

(a) 780,000 shares authorized; 664,653 and 630,321 shares issued and outstanding at September 30, 2014 and December 31, 2013.

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)

	Common stock shares outstanding (a)	PPL Shareowners					Non- controlling interests	Total
		Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss			
June 30, 2014	664,018	\$ 7	\$ 9,358	\$ 5,768	\$ (1,398)		\$ 13,735	
Common stock issued	635		21				21	
Stock-based compensation			9				9	
Net income				497			497	
Dividends and dividend equivalents				(248)			(248)	
Other comprehensive income (loss)					(40)		(40)	
September 30, 2014	664,653	\$ 7	\$ 9,388	\$ 6,017	\$ (1,438)		\$ 13,974	
December 31, 2013	630,321	\$ 6	\$ 8,316	\$ 5,709	\$ (1,565)		\$ 12,466	
Common stock issued	34,332	1	1,048				1,049	
Stock-based compensation			24				24	
Net income				1,042			1,042	
Dividends and dividend equivalents				(734)			(734)	
Other comprehensive income (loss)					127		127	
September 30, 2014	664,653	\$ 7	\$ 9,388	\$ 6,017	\$ (1,438)		\$ 13,974	
June 30, 2013	591,622	\$ 6	\$ 7,195	\$ 5,863	\$ (2,128)	\$ 18	\$ 10,954	
Common stock issued	40,117		1,151				1,151	

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Common stock repurchased	(1,500)		(46)				(46)
Stock-based compensation			5				5
Net income				410		1	411
Dividends and dividend equivalents				(233)		(1)	(234)
Other comprehensive income (loss)					121		121
September 30, 2013	630,239 \$	6 \$	8,305 \$	6,040 \$	(2,007) \$	18 \$	12,362
December 31, 2012	581,944 \$	6 \$	6,936 \$	5,478 \$	(1,940) \$	18 \$	10,498
Common stock issued	50,725		1,433				1,433
Common stock repurchased	(2,430)		(74)				(74)
Cash settlement of equity forward agreements			(13)				(13)
Stock-based compensation			23				23
Net income				1,228		1	1,229
Dividends and dividend equivalents				(666)		(1)	(667)
Other comprehensive income (loss)					(67)		(67)
September 30, 2013	630,239 \$	6 \$	8,305 \$	6,040 \$	(2,007) \$	18 \$	12,362

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

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Unregulated wholesale energy	\$ 1,109	\$ 913	\$ 203	\$ 2,380
Unregulated wholesale energy to affiliate	20	11	68	37
Unregulated retail energy	283	265	913	758
Energy-related businesses	189	143	469	378
Total Operating Revenues	1,601	1,332	1,653	3,553
Operating Expenses				
Operation				
Fuel	212	258	953	780
Energy purchases	708	389	(893)	1,088
Other operation and maintenance	232	232	746	714
Depreciation	74	75	225	223
Taxes, other than income	14	14	45	40
Energy-related businesses	172	138	451	366
Total Operating Expenses	1,412	1,106	1,527	3,211
Operating Income	189	226	126	342
Other Income (Expense) - net	10	1	23	17
Interest Expense	31	37	95	123
Income from Continuing Operations Before Income Taxes	168	190	54	236
Income Taxes	74	71	16	91
Income from Continuing Operations After Income Taxes	94	119	38	145
Income (Loss) from Discontinued Operations (net of income taxes)	7	6	10	28
Net Income	101	125	48	173
Net Income Attributable to Noncontrolling Interests		1		1
Net Income Attributable to PPL Energy Supply Member	\$ 101	\$ 124	\$ 48	\$ 172

Amounts Attributable to PPL Energy Supply Member:

Income from Continuing Operations After

Income Taxes

\$ 94 \$ 118 \$ 38 \$ 144

Income (Loss) from Discontinued Operations

(net of income taxes)

7 6 10 28

Net Income

\$ 101 \$ 124 \$ 48 \$ 172

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 101	\$ 125	\$ 48	\$ 173
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense)				
benefit:				
Available-for-sale securities, net of tax of \$1, (\$15), (\$20), (\$42)	(1)	15	18	40
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$4, \$1, \$6, \$2	(3)		(5)	(2)
Qualifying derivatives, net of tax of \$2, \$19, \$11, \$63	(5)	(29)	(18)	(96)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$2), (\$2)	1	1	2	3
Net actuarial loss, net of tax of \$0, (\$2), (\$2), (\$7)	1	3	4	11
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(7)	(10)	1	(44)
Comprehensive income (loss)	94	115	49	129
Comprehensive income attributable to noncontrolling interests		1		1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ 94	\$ 114	\$ 49	\$ 128

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 48	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	242	237
Amortization	117	111
Defined benefit plans - expense	34	39
Deferred income taxes and investment tax credits	(150)	112
Impairment of assets	20	
Unrealized (gains) losses on derivatives, and other hedging activities	216	98
Other	19	9
Change in current assets and current liabilities		
Accounts receivable	(1)	71
Accounts payable	(45)	(108)
Unbilled revenues	41	135
Fuel, materials and supplies	(67)	(18)
Taxes payable	70	(43)
Counterparty collateral	(18)	(77)
Price risk management assets and liabilities	(34)	1
Other	(9)	10
Other operating activities		
Defined benefit plans - funding	(32)	(107)
Other assets	(2)	(32)
Other liabilities	16	(28)
Net cash provided by operating activities	465	583
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(276)	(341)
Expenditures for intangible assets	(38)	(33)
Purchases of nuclear plant decommissioning trust investments	(124)	(102)
Proceeds from the sale of nuclear plant decommissioning trust investments	112	92
Proceeds from the receipt of grants	164	4
Net (increase) decrease in restricted cash and cash equivalents	(199)	9
Other investing activities	17	20
Net cash provided by (used in) investing activities	(344)	(351)

Cash Flows from Financing Activities			
Retirement of long-term debt		(308)	(309)
Contributions from member		730	980
Distributions to member		(1,178)	(408)
Net increase (decrease) in short-term debt		590	(356)
Other financing activities			(1)
	Net cash provided by (used in)		
	financing activities	(166)	(94)
Net Increase (Decrease) in Cash and Cash Equivalents		(45)	138
Cash and Cash Equivalents at Beginning of Period		239	413
Cash and Cash Equivalents at End of Period		\$ 194	\$ 551

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 194	\$ 239
Restricted cash and cash equivalents	267	68
Accounts receivable (less reserve: 2014, \$2; 2013, \$21)		
Customer	203	233
Other	96	97
Accounts receivable from affiliates	44	45
Unbilled revenues	245	286
Fuel, materials and supplies	425	358
Prepayments	10	20
Deferred income taxes	35	
Price risk management assets	713	860
Assets of discontinued operations	578	
Other current assets	30	27
Total Current Assets	2,840	2,233
Investments		
Nuclear plant decommissioning trust funds	911	864
Other investments	32	37
Total Investments	943	901
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,188	11,891
Nuclear fuel	624	591
Other	296	288
Less: accumulated depreciation - non-regulated property, plant and equipment	6,157	6,046
Non-regulated property, plant and equipment, net	5,951	6,724
Construction work in progress	408	450
Property, Plant and Equipment, net	6,359	7,174
Other Noncurrent Assets		
Goodwill	72	86
Other intangibles	254	266
Price risk management assets	328	328
Other noncurrent assets	77	86
Total Other Noncurrent Assets	731	766

Total Assets	\$	10,873	\$	11,074
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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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 590	
Long-term debt due within one year	235	\$ 304
Accounts payable	272	393
Accounts payable to affiliates	42	4
Taxes	101	31
Interest	42	22
Price risk management liabilities	850	750
Other current liabilities	243	278
Total Current Liabilities	2,375	1,782
Long-term Debt	1,983	2,221
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,185	1,114
Investment tax credits	27	205
Price risk management liabilities	287	320
Accrued pension obligations	103	111
Asset retirement obligations	413	393
Other deferred credits and noncurrent liabilities	135	130
Total Deferred Credits and Other Noncurrent Liabilities	2,150	2,273
Commitments and Contingent Liabilities (Note 10)		
Member's Equity	4,365	4,798
Total Liabilities and Equity	\$ 10,873	\$ 11,074

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, 2014	\$ 4,569		\$ 4,569
Net income	101		101
Other comprehensive income (loss)	(7)		(7)
Distributions	(298)		(298)
September 30, 2014	\$ 4,365		\$ 4,365
December 31, 2013	\$ 4,798		\$ 4,798
Net income	48		48
Other comprehensive income (loss)	1		1
Contributions from member	730		730
Distributions	(1,212)		(1,212)
September 30, 2014	\$ 4,365		\$ 4,365
June 30, 2013	\$ 3,541	\$ 18	\$ 3,559
Net income	124	1	125
Other comprehensive income (loss)	(10)		(10)
Contributions from member	875		875
Distributions		(1)	(1)
September 30, 2013	\$ 4,530	\$ 18	\$ 4,548
December 31, 2012	\$ 3,830	\$ 18	\$ 3,848
Net income	172	1	173
Other comprehensive income (loss)	(44)		(44)
Contributions from member	980		980
Distributions	(408)	(1)	(409)
September 30, 2013	\$ 4,530	\$ 18	\$ 4,548

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,	
	2014	2013	2014	2013
Operating Revenues	\$ 477	\$ 464	\$ 1,518	\$ 1,391
Operating Expenses				
Operation				
Energy purchases	128	144	431	436
Energy purchases from affiliate	20	11	68	37
Other operation and maintenance	133	134	402	391
Depreciation	47	45	137	132
Taxes, other than income	25	25	80	77
Total Operating Expenses	353	359	1,118	1,073
Operating Income	124	105	400	318
Other Income (Expense) - net	3	2	6	5
Interest Expense	33	30	91	80
Income Before Income Taxes	94	77	315	243
Income Taxes	37	26	121	83
Net Income (a)	\$ 57	\$ 51	\$ 194	\$ 160

(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,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 194	\$ 160
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	137	132
Amortization	13	13
Defined benefit plans - expense	10	16
Deferred income taxes and investment tax credits	65	103
Other	(20)	(7)
Change in current assets and current liabilities		
Accounts receivable	(45)	(14)
Accounts payable	(25)	(42)
Unbilled revenues	40	34
Taxes payable	45	24
Other	4	(19)
Other operating activities		
Defined benefit plans - funding	(20)	(88)
Other assets	8	6
Other liabilities	6	9
Net cash provided by operating activities	412	327
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(700)	(688)
Expenditures for intangible assets	(25)	(20)
Net (increase) decrease in notes receivable from affiliates	150	
Other investing activities	13	11
Net cash provided by (used in) investing activities	(562)	(697)
Cash Flows from Financing Activities		
Issuance of long-term debt	296	348
Retirement of long-term debt	(10)	
Contributions from parent	95	205
Payment of common stock dividends to parent	(121)	(94)
Net increase (decrease) in short-term debt	(20)	
Other financing activities	(4)	(4)
Net cash provided by (used in) financing activities	236	455

Net Increase (Decrease) in Cash and Cash Equivalents		86	85
Cash and Cash Equivalents at Beginning of Period		25	140
Cash and Cash Equivalents at End of Period	\$	111	\$ 225

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 111	\$ 25
Accounts receivable (less reserve: 2014, \$18; 2013, \$18)		
Customer	309	284
Other	27	5
Accounts receivable from affiliates	2	4
Notes receivable from affiliate		150
Unbilled revenues	76	116
Materials and supplies	35	35
Prepayments	28	40
Deferred income taxes	89	85
Other current assets	13	22
Total Current Assets	690	766
Property, Plant and Equipment		
Regulated utility plant	7,430	6,886
Less: accumulated depreciation - regulated utility plant	2,523	2,417
Regulated utility plant, net	4,907	4,469
Other, net	2	2
Construction work in progress	713	591
Property, Plant and Equipment, net	5,622	5,062
Other Noncurrent Assets		
Regulatory assets	772	772
Intangibles	234	211
Other noncurrent assets	37	35
Total Other Noncurrent Assets	1,043	1,018
Total Assets	\$ 7,355	\$ 6,846

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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt		\$ 20
Long term debt due within one year		10
Accounts payable	\$ 280	295
Accounts payable to affiliates	53	57
Taxes	52	51
Interest	27	34
Regulatory liabilities	81	76
Other current liabilities	92	82
Total Current Liabilities	585	625
Long-term Debt	2,602	2,305
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,490	1,399
Accrued pension obligations	84	96
Regulatory liabilities	18	15
Other deferred credits and noncurrent liabilities	59	57
Total Deferred Credits and Other Noncurrent Liabilities	1,651	1,567
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	1,435	1,340
Earnings reinvested	718	645
Total Equity	2,517	2,349
Total Liabilities and Equity	\$ 7,355	\$ 6,846

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2014 and December 31, 2013.

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

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2014	66,368	\$ 364	\$ 1,435	\$ 695	\$ 2,494
Net income				57	57
Cash dividends declared on common stock				(34)	(34)
September 30, 2014	66,368	\$ 364	\$ 1,435	\$ 718	\$ 2,517
December 31, 2013	66,368	\$ 364	\$ 1,340	\$ 645	\$ 2,349
Net income				194	194
Capital contributions from PPL			95		95
Cash dividends declared on common stock				(121)	(121)
September 30, 2014	66,368	\$ 364	\$ 1,435	\$ 718	\$ 2,517
June 30, 2013	66,368	\$ 364	\$ 1,340	\$ 606	\$ 2,310
Net income				51	51
Cash dividends declared on common stock				(28)	(28)
September 30, 2013	66,368	\$ 364	\$ 1,340	\$ 629	\$ 2,333
December 31, 2012	66,368	\$ 364	\$ 1,135	\$ 563	\$ 2,062
Net income				160	160
Capital contributions from PPL			205		205
Cash dividends declared on common stock				(94)	(94)
September 30, 2013	66,368	\$ 364	\$ 1,340	\$ 629	\$ 2,333

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 753	\$ 744	\$ 2,409	\$ 2,226
Operating Expenses				
Operation				
Fuel	240	237	748	684
Energy purchases	24	23	184	146
Other operation and maintenance	197	188	609	582
Depreciation	89	84	262	249
Taxes, other than income	13	12	39	36
Total Operating Expenses	563	544	1,842	1,697
Operating Income	190	200	567	529
Other Income (Expense) - net	(2)	(4)	(6)	(6)
Interest Expense	42	37	125	110
Interest Expense with Affiliate				1
Income from Continuing Operations Before Income Taxes	146	159	436	412
Income Taxes	55	59	165	153
Income from Continuing Operations After Income Taxes	91	100	271	259
Income (Loss) from Discontinued Operations (net of income taxes)				1
Net Income (a)	\$ 91	\$ 100	\$ 271	\$ 260

(a) Net income approximates comprehensive income.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 271	\$ 260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	262	249
Amortization	18	19
Defined benefit plans - expense	18	38
Deferred income taxes and investment tax credits	251	99
Other	11	6
Change in current assets and current liabilities		
Accounts receivable	(31)	(78)
Accounts payable	7	34
Accounts payable to affiliates	(2)	1
Unbilled revenues	49	19
Fuel, materials and supplies	4	1
Taxes payable	5	83
Accrued interest	36	30
Other	(10)	
Other operating activities		
Defined benefit plans - funding	(43)	(159)
Settlement of interest rate swaps		98
Other assets		9
Other liabilities	5	14
Net cash provided by operating activities	851	723
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(843)	(891)
Net (increase) decrease in notes receivable from affiliates	70	
Other investing activities		2
Net cash provided by (used in) investing activities	(773)	(889)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	22	27
Net increase (decrease) in short-term debt	103	87
Debt issuance and credit facility costs	(3)	
Distributions to member	(327)	(116)
Contributions from member	139	146
Net cash provided by (used in) financing activities	(66)	144
Net Increase (Decrease) in Cash and Cash Equivalents	12	(22)

Cash and Cash Equivalents at Beginning of Period		35		43	
Cash and Cash Equivalents at End of Period		\$	47	\$	21

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 47	\$ 35
Accounts receivable (less reserve: 2014, \$25; 2013, \$22)		
Customer	219	224
Other	44	20
Unbilled revenues	131	180
Fuel, materials and supplies	274	278
Prepayments	28	21
Notes receivable from affiliates		70
Deferred income taxes	69	159
Regulatory assets	25	27
Other current assets	4	3
Total Current Assets	841	1,017
Property, Plant and Equipment		
Regulated utility plant	9,399	8,526
Less: accumulated depreciation - regulated utility plant	996	778
Regulated utility plant, net	8,403	7,748
Other, net	4	3
Construction work in progress	1,812	1,793
Property, Plant and Equipment, net	10,219	9,544
Other Noncurrent Assets		
Regulatory assets	481	474
Goodwill	996	996
Other intangibles	185	221
Price risk management assets from affiliates	6	
Other noncurrent assets	99	98
Total Other Noncurrent Assets	1,767	1,789
Total Assets	\$ 12,827	\$ 12,350

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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 348	\$ 245
Notes payable with affiliates	22	
Accounts payable	429	346
Accounts payable to affiliates	1	3
Customer deposits	51	50
Taxes	44	39
Price risk management liabilities	4	4
Regulatory liabilities	11	14
Interest	59	23
Other current liabilities	113	111
Total Current Liabilities	1,082	835
Long-term Debt	4,566	4,565
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,131	965
Investment tax credits	132	135
Accrued pension obligations	116	152
Asset retirement obligations	275	245
Regulatory liabilities	1,010	1,033
Price risk management liabilities	38	32
Price risk management liabilities with affiliates	4	
Other deferred credits and noncurrent liabilities	243	238
Total Deferred Credits and Other Noncurrent Liabilities	2,949	2,800
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,230	4,150
Total Liabilities and Equity	\$ 12,827	\$ 12,350

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, 2014	\$	4,225
Net income		91
Contributions from member		20
Distributions to member		(106)
September 30, 2014	\$	4,230
December 31, 2013	\$	4,150
Net income		271
Contributions from member		139
Distributions to member		(327)
Other comprehensive income (loss)		(3)
September 30, 2014	\$	4,230
June 30, 2013	\$	4,022
Net income		100
Distributions to member		(47)
September 30, 2013	\$	4,075
December 31, 2012	\$	3,786
Net income		260
Contributions from member		146
Distributions to member		(116)
Other comprehensive income (loss)		(1)
September 30, 2013	\$	4,075

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,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 334	\$ 332	\$ 1,096	\$ 1,003
Electric revenue from affiliate	13	11	74	46
Total Operating Revenues	347	343	1,170	1,049
Operating Expenses				
Operation				
Fuel	99	100	320	284
Energy purchases	20	18	167	129
Energy purchases from affiliate	3	2	11	6
Other operation and maintenance	94	93	286	278
Depreciation	39	37	116	110
Taxes, other than income	6	6	19	18
Total Operating Expenses	261	256	919	825
Operating Income	86	87	251	224
Other Income (Expense) - net		(1)	(3)	(3)
Interest Expense	13	10	37	30
Income Before Income Taxes	73	76	211	191
Income Taxes	27	27	78	69
Net Income (a)	\$ 46	\$ 49	\$ 133	\$ 122

(a) Net income equals 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,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 133	\$ 122
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	116	110
Amortization	9	9
Defined benefit plans - expense	7	13
Deferred income taxes and investment tax credits	31	22
Other	(2)	10
Change in current assets and current liabilities		
Accounts receivable	(8)	(20)
Accounts payable	8	18
Accounts payable to affiliates	(4)	7
Unbilled revenues	27	10
Fuel, materials and supplies	5	2
Taxes payable	10	32
Accrued Interest	9	3
Other	1	9
Other operating activities		
Defined benefit plans - funding	(12)	(45)
Settlement of interest rate swaps		49
Other assets	1	9
Other liabilities	(4)	2
Net cash provided by operating activities	327	362
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(422)	(376)
Net cash provided by (used in) investing activities	(422)	(376)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	123	17
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(83)	(67)
Contributions from parent	73	54
Net cash provided by (used in) financing activities	112	4
Net Increase (Decrease) in Cash and Cash Equivalents	17	(10)
Cash and Cash Equivalents at Beginning of Period	8	22
Cash and Cash Equivalents at End of Period	\$ 25	\$ 12

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 25	\$ 8
Accounts receivable (less reserve: 2014, \$2; 2013, \$2)		
Customer	93	102
Other	12	9
Unbilled revenues	58	85
Accounts receivable from affiliates	10	
Fuel, materials and supplies	149	154
Prepayments	5	7
Regulatory assets	23	17
Other current assets	2	3
Total Current Assets	377	385
Property, Plant and Equipment		
Regulated utility plant	3,606	3,383
Less: accumulated depreciation - regulated utility plant	429	332
Regulated utility plant, net	3,177	3,051
Construction work in progress	912	651
Property, Plant and Equipment, net	4,089	3,702
Other Noncurrent Assets		
Regulatory assets	305	303
Goodwill	389	389
Other intangibles	102	120
Price risk management assets from affiliates	3	
Other noncurrent assets	34	35
Total Other Noncurrent Assets	833	847
Total Assets	\$ 5,299	\$ 4,934

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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 143	\$ 20
Accounts payable	250	166
Accounts payable to affiliates	20	24
Customer deposits	24	24
Taxes	21	11
Price risk management liabilities	4	4
Regulatory liabilities	9	9
Interest	15	6
Other current liabilities	33	32
Total Current Liabilities	519	296
Long-term Debt	1,353	1,353
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	613	582
Investment tax credits	37	38
Accrued pension obligations	9	19
Asset retirement obligations	69	68
Regulatory liabilities	471	482
Price risk management liabilities	38	32
Price risk management liabilities with affiliates	2	
Other deferred credits and noncurrent liabilities	105	104
Total Deferred Credits and Other Noncurrent Liabilities	1,344	1,325
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,437	1,364
Earnings reinvested	222	172
Total Equity	2,083	1,960
Total Liabilities and Equity	\$ 5,299	\$ 4,934

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2014 and December 31, 2013.

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, 2014	21,294	\$ 424	\$ 1,417	\$ 199	\$ 2,040
Net income				46	46
Capital contributions from LKE			20		20
Cash dividends declared on common stock				(23)	(23)
September 30, 2014	21,294	\$ 424	\$ 1,437	\$ 222	\$ 2,083
December 31, 2013	21,294	\$ 424	\$ 1,364	\$ 172	\$ 1,960
Net income				133	133
Capital contributions from LKE			73		73
Cash dividends declared on common stock				(83)	(83)
September 30, 2014	21,294	\$ 424	\$ 1,437	\$ 222	\$ 2,083
June 30, 2013	21,294	\$ 424	\$ 1,332	\$ 133	\$ 1,889
Net income				49	49
Cash dividends declared on common stock				(19)	(19)
September 30, 2013	21,294	\$ 424	\$ 1,332	\$ 163	\$ 1,919
December 31, 2012	21,294	\$ 424	\$ 1,278	\$ 108	\$ 1,810
Net income				122	122
Capital contributions from LKE			54		54
Cash dividends declared on common stock				(67)	(67)
September 30, 2013	21,294	\$ 424	\$ 1,332	\$ 163	\$ 1,919

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

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

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CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenues				
Retail and wholesale	\$ 419	\$ 412	\$ 1,313	\$ 1,223
Electric revenue from affiliate	3	2	11	6
Total Operating Revenues	422	414	1,324	1,229
Operating Expenses				
Operation				
Fuel	141	137	428	400
Energy purchases	4	5	17	17
Energy purchases from affiliate	13	11	74	46
Other operation and maintenance	97	91	302	286
Depreciation	50	46	145	138
Taxes, other than income	7	6	20	18
Total Operating Expenses	312	296	986	905
Operating Income	110	118	338	324
Other Income (Expense) - net	(1)	(2)	(1)	(1)
Interest Expense	19	17	58	51
Income Before Income Taxes	90	99	279	272
Income Taxes	34	36	106	101
Net Income (a)	\$ 56	\$ 63	\$ 173	\$ 171

(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,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 173	\$ 171
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	145	138
Amortization	8	9
Defined benefit plans - expense	4	16
Deferred income taxes and investment tax credits	129	73
Other	11	(3)
Change in current assets and current liabilities		
Accounts receivable	(11)	(46)
Accounts payable	6	25
Accounts payable to affiliates	4	(9)
Unbilled revenues	22	9
Fuel, materials and supplies	(1)	(1)
Taxes payable	(12)	39
Accrued interest	18	15
Other	(8)	(3)
Other operating activities		
Defined benefit plans - funding	(4)	(62)
Settlement of interest rate swaps		49
Other assets	(2)	(2)
Other liabilities	4	1
Net cash provided by operating activities	486	419
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(418)	(512)
Other investing activities		2
Net cash provided by (used in) investing activities	(418)	(510)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	(20)	70
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(112)	(83)
Contributions from parent	66	92
Net cash provided by (used in) financing activities	(67)	79
Net Increase (Decrease) in Cash and Cash Equivalents	1	(12)
Cash and Cash Equivalents at Beginning of Period	21	21
Cash and Cash Equivalents at End of Period	\$ 22	\$ 9

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, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 22	\$ 21
Accounts receivable (less reserve: 2014, \$3; 2013, \$4)		
Customer	126	122
Other	8	9
Unbilled revenues	73	95
Fuel, materials and supplies	125	124
Prepayments	11	4
Regulatory assets	2	10
Other current assets	3	6
Total Current Assets	370	391
Property, Plant and Equipment		
Regulated utility plant	5,793	5,143
Less: accumulated depreciation - regulated utility plant	567	446
Regulated utility plant, net	5,226	4,697
Other, net	1	1
Construction work in progress	897	1,139
Property, Plant and Equipment, net	6,124	5,837
Other Noncurrent Assets		
Regulatory assets	176	171
Goodwill	607	607
Other intangibles	83	101
Price risk management assets from affiliates	3	
Other noncurrent assets	59	56
Total Other Noncurrent Assets	928	935
Total Assets	\$ 7,422	\$ 7,163

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, 2014	December 31, 2013
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 130	\$ 150
Accounts payable	166	159
Accounts payable to affiliates	29	25
Customer deposits	27	26
Taxes	21	33
Regulatory liabilities	2	5
Interest	29	11
Other current liabilities	38	36
Total Current Liabilities	442	445
Long-term Debt	2,091	2,091
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	786	658
Investment tax credits	95	97
Accrued pension obligations	2	11
Asset retirement obligations	206	177
Regulatory liabilities	539	551
Price risk management liabilities with affiliates	2	
Other deferred credits and noncurrent liabilities	89	89
Total Deferred Credits and Other Noncurrent Liabilities	1,719	1,583
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,571	2,505
Accumulated other comprehensive income (loss)		1
Earnings reinvested	291	230
Total Equity	3,170	3,044
Total Liabilities and Equity	\$ 7,422	\$ 7,163

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2014 and December 31, 2013.

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, 2014	37,818	\$ 308	\$ 2,571	\$ 261		\$ 3,140
Net income				56		56
Cash dividends declared on common stock				(26)		(26)
September 30, 2014	37,818	\$ 308	\$ 2,571	\$ 291		\$ 3,170
December 31, 2013	37,818	\$ 308	\$ 2,505	\$ 230	\$ 1	\$ 3,044
Net income				173		173
Capital contributions from LKE			66			66
Cash dividends declared on common stock				(112)		(112)
Other comprehensive income (loss)					(1)	(1)
September 30, 2014	37,818	\$ 308	\$ 2,571	\$ 291	\$	\$ 3,170
June 30, 2013	37,818	\$ 308	\$ 2,440	\$ 179	\$ 1	\$ 2,928
Net income				63		63
Cash dividends declared on common stock				(28)		(28)
September 30, 2013	37,818	\$ 308	\$ 2,440	\$ 214	\$ 1	\$ 2,963
December 31, 2012	37,818	\$ 308	\$ 2,348	\$ 126	\$ 1	\$ 2,783
Net income				171		171
Capital contributions from LKE			92			92
Cash dividends declared on common stock				(83)		(83)
September 30, 2013	37,818	\$ 308	\$ 2,440	\$ 214	\$ 1	\$ 2,963

(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

(All Registrants)

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 specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for their related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP 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 GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP 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, 2013 is derived from that Registrant's 2013 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 2013 Form 10-K. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014 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, 2014 financial statements.

(PPL and PPL Energy Supply)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Montana's hydroelectric generating facilities expected to be sold in the fourth quarter of 2014. "Assets of discontinued operations" on the Balance Sheet at September 30, 2014, includes the related assets. Corresponding amounts at December 31, 2013, have not been reclassified on the Balance Sheet as of that date. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations.

(PPL Energy Supply)

During the three and nine months ended September 30, 2014, PPL Energy Supply recorded \$14 million (\$9 million after-tax) and \$17 million (\$11 million after-tax) increases to "Energy-related businesses" revenues on the 2014 Statement of Income related to prior periods and the timing of revenue recognition for a mechanical contracting and engineering subsidiary. The impact of the errors is not material to the previously-issued financial statements and is not expected to be material to the full year results for 2014.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2013 Form 10-K and should be read in conjunction with those disclosures.

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

In accordance with a PUC-approved purchase of accounts receivable program designed to facilitate competitive markets for electricity in Pennsylvania, PPL Electric purchases certain accounts receivable from alternative electricity suppliers (including PPL EnergyPlus) at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers 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. During the three and nine months ended September 30, 2014, PPL Electric purchased \$260 million and \$874 million of accounts receivable from unaffiliated third parties and \$77 million and \$261 million from

PPL EnergyPlus. During the three and nine months ended September 30, 2013, PPL Electric purchased \$259 million and \$738 million of accounts receivable from unaffiliated third parties and \$75 million and \$222 million from PPL EnergyPlus.

New Accounting Guidance Adopted (All Registrants)

Accounting for Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Registrants retrospectively adopted accounting guidance for the recognition, measurement and disclosure of certain obligations resulting from joint and several liability arrangements when the amount of the obligation is fixed at the reporting date. If the obligation is determined to be in the scope of this guidance, it will be measured as the sum of the amount the reporting entity agreed to pay on the basis of its arrangements among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires additional disclosures for these obligations.

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

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

Effective January 1, 2014, PPL prospectively adopted accounting guidance that requires a cumulative translation adjustment to be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For the step acquisition of previously held equity method investments that are foreign entities, this guidance clarifies that the amount of accumulated other comprehensive income that is reclassified and included in the calculation of a gain or loss shall include any foreign currency translation adjustment related to that previously held investment.

The initial adoption of this guidance did not have a significant impact on PPL; however, the impact in future periods could be material.

Presentation of Unrecognized Tax Benefits When Net Operating Loss Carryforwards, Similar Tax Losses, or Tax Credit Carryforwards Exist

Effective January 1, 2014, the Registrants prospectively adopted accounting guidance that requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

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

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2013 Form 10-K for a discussion of reportable segments and related information.

In June 2014, PPL and PPL Energy Supply, which primarily represents PPL's Supply segment, executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. The transaction is expected to close in the first or second quarter of 2015. Upon completion of this transaction, PPL will no longer have a Supply segment. See Note 8 for additional information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are:

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	Three Months		Nine Months	
	2014	2013	2014	2013
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 644	\$ 543	\$ 1,964	\$ 1,763
Kentucky Regulated	753	744	2,409	2,226
Pennsylvania Regulated	477	463	1,516	1,388
Supply (a)	1,571	1,321	1,575	3,516
Corporate and Other	4	3	12	9
Total	\$ 3,449	\$ 3,074	\$ 7,476	\$ 8,902
Intersegment electric revenues				
Supply	\$ 20	\$ 11	\$ 68	\$ 37
Net Income Attributable to PPL Shareowners				
U.K. Regulated (a)	\$ 295	\$ 183	\$ 688	\$ 741
Kentucky Regulated	82	93	247	227
Pennsylvania Regulated	57	51	194	160
Supply (a)	86	91	16	122
Corporate and Other (b)	(23)	(8)	(103)	(22)
Total	\$ 497	\$ 410	\$ 1,042	\$ 1,228

September 30, December 31,
2014 2013

Balance Sheet Data**Assets**

U.K. Regulated	\$ 16,543	\$ 15,895
Kentucky Regulated	12,493	12,016
Pennsylvania Regulated	7,355	6,846
Supply	11,210	11,408
Corporate and Other (c)	588	94
Total assets	\$ 48,189	\$ 46,259

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

(b) 2014 includes certain costs related to the anticipated spinoff of PPL Energy Supply, including deferred income tax expense, third party transaction costs, and separation benefits. See Note 8 for additional information.

(c) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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 applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares

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as calculated using the Treasury Stock method or the If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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	
	2014	2013	2014	2013
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL				
shareowners	\$ 490	\$ 403	\$ 1,032	\$ 1,198
Less amounts allocated to participating securities	2	2	5	6
Income from continuing operations after income taxes available to PPL				
common shareowners - Basic	488	401	1,027	1,192
Plus interest charges (net of tax) related to Equity Units (a)		7	9	37
Income from continuing operations after income taxes available to PPL				
common shareowners - Diluted	\$ 488	\$ 408	\$ 1,036	\$ 1,229
Income (loss) from discontinued operations (net of income taxes) available				
to PPL common shareowners - Basic and Diluted	\$ 7	\$ 7	\$ 10	\$ 30

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	Three Months		Nine Months	
	2014	2013	2014	2013
Net income attributable to PPL shareowners	\$ 497	\$ 410	\$ 1,042	\$ 1,228
Less amounts allocated to participating securities	2	2	5	6
Net income available to PPL common shareowners - Basic	495	408	1,037	1,222
Plus interest charges (net of tax) related to Equity Units (a)		7	9	37
Net income available to PPL common shareowners - Diluted	\$ 495	\$ 415	\$ 1,046	\$ 1,259

Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	664,432	631,046	649,561	601,275
Add incremental non-participating securities:				
Share-based payment awards	1,970	1,163	1,860	1,035
Equity Units (a)		32,134	14,080	59,171
Forward sale agreements				613
Weighted-average shares - Diluted EPS	666,402	664,343	665,501	662,094

Basic EPS

Available to PPL common shareowners:

Income from continuing operations after income taxes	\$ 0.73	\$ 0.64	\$ 1.58	\$ 1.98
Income (loss) from discontinued operations (net of income taxes)	0.01	0.01	0.02	0.05
Net Income Available to PPL common shareowners	\$ 0.74	\$ 0.65	\$ 1.60	\$ 2.03

Diluted EPS

Available to PPL common shareowners:

Income from continuing operations after income taxes	\$ 0.73	\$ 0.61	\$ 1.56	\$ 1.86
Income (loss) from discontinued operations (net of income taxes)	0.01	0.01	0.01	0.04
Net Income Available to PPL common shareowners	\$ 0.74	\$ 0.62	\$ 1.57	\$ 1.90

(a) The If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the 2011 Equity Units, including the issuance of PPL common stock on May 1, 2014 to settle the 2011 Purchase Contracts.

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

	Three Months		Nine Months	
	2014	2013	2014	2013
Stock-based compensation plans (a)	210	85	2,228	1,469
ESOP				275
DRIP	425		425	549

(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 shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
	2014	2013	2014	2013
Stock options	527	1,136	1,901	4,793
Performance units		1		73
Restricted stock units			41	39

5. Income Taxes

Reconciliations of income taxes for the periods ended September 30 are:

(PPL)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 264	\$ 170	\$ 543	\$ 535
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	27	11	21	27
State valuation allowance adjustments (a)	3	38	49	38
Impact of lower U.K. income tax rates (b)	(50)	(38)	(126)	(101)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	26	10	47	5
Federal and state tax reserve adjustments (d)	(1)	(1)		(41)
Federal and state income tax return adjustments	2	(4)	2	(4)
Impact of the U.K. Finance Acts on deferred tax balances (b)		(93)		(93)
Federal income tax credits		(3)	(3)	(8)
Amortization of investment tax credit	(1)		(5)	(5)
Depreciation not normalized	(3)	(2)	(7)	(6)
Intercompany interest on U.K. financing entities	(2)	(2)	(6)	(7)
Other		(5)	5	(11)
Total increase (decrease)	1	(89)	(23)	(206)
Total income taxes	\$ 265	\$ 81	\$ 520	\$ 329

(a) As a result of the PPL Energy Supply spinoff announcement, PPL recorded deferred income tax expense during the three and nine months ended September 30, 2014 to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the anticipated spinoff.

During the three and nine months ended September 30, 2013, PPL recorded an increase in state deferred income tax expense related to a deferred tax valuation allowance primarily due to a decrease in projected future taxable income over the remaining carryforward period of Pennsylvania net operating losses.

(b) The U.K.'s Finance Act of 2013, enacted in July 2013, reduced the U.K. statutory income tax rate from 23% to 21%, effective April 1, 2014 and from 21% to 20% effective April 1, 2015. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2013 related to both rate decreases.

(c) For the three and nine months ended September 30, 2014, PPL recorded \$19 million and \$40 million increases to income tax expense primarily attributable to the expected taxable amount of cash repatriation in 2014.

During the three and nine months ended September 30, 2013, PPL recorded \$10 million and \$24 million increases to income tax expense primarily attributable to a revision in the expected taxable amount of cash repatriation in 2013.

During the nine months ended September 30, 2013, PPL recorded a tax benefit of \$19 million associated with a ruling obtained from the IRS impacting the recalculation of 2010 U.K. earnings and profits that was reflected on an amended 2010 U.S. tax return.

(d) 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. 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 2011. 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 and oral argument was held in February 2013. In May 2013, the Supreme Court reversed the Third Circuit's opinion and ruled that the WPT is a creditable tax. As a result of the Supreme Court ruling, PPL recorded a tax benefit of \$44 million during the nine months ended September 30, 2013, of which \$19 million relates to interest.

(PPL Energy Supply)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	\$ 59	\$ 67	\$ 19	\$ 83
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	16	6	(3)	8
State valuation allowance adjustments		4		4
Federal and state tax reserve adjustments	(1)			6
Federal income tax credits	(3)	(3)	(5)	(6)
State deferred tax rate change			3	
Other	3	(3)	2	(4)
Total increase (decrease)	15	4	(3)	8
Total income taxes	\$ 74	\$ 71	\$ 16	\$ 91

(PPL Electric)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 33	\$ 27	\$ 110	\$ 85
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	17	13
Federal and state tax reserve adjustments		(2)	(1)	(6)
Depreciation not normalized	(2)	(2)	(5)	(6)
Other	1	(2)		(3)
Total increase (decrease)	4	(1)	11	(2)
Total income taxes	\$ 37	\$ 26	\$ 121	\$ 83

(LKE)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	\$ 51	\$ 56	\$ 153	\$ 144
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	6	16	14
Amortization of investment tax credit	(1)	(1)	(3)	(3)
Other	(1)	(2)	(1)	(2)
Total increase (decrease)	4	3	12	9
Total income taxes	\$ 55	\$ 59	\$ 165	\$ 153

(LG&E)

	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 26	\$ 27	\$ 74	\$ 67
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	8	7
Other	(2)	(3)	(4)	(5)
Total increase (decrease)	1		4	2
Total income taxes	\$ 27	\$ 27	\$ 78	\$ 69

(KU)

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	Three Months		Nine Months	
	2014	2013	2014	2013
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 32	\$ 35	\$ 98	\$ 95
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	4	10	10
Other	(1)	(3)	(2)	(4)
Total increase (decrease)	2	1	8	6
Total income taxes	\$ 34	\$ 36	\$ 106	\$ 101

6. Utility Rate Regulation

(All Registrants except PPL Energy Supply)

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

	PPL		PPL Electric	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Current Regulatory Assets:				
Environmental cost recovery	\$ 3	\$ 7		
Gas supply clause	20	10		
Fuel adjustment clause		2		
Demand side management		8		
Other	5	6	\$ 3	\$ 6
Total current regulatory assets	\$ 28	\$ 33	\$ 3	\$ 6
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 486	\$ 509	\$ 250	\$ 257
Taxes recoverable through future rates	313	306	313	306
Storm costs	130	147	47	53
Unamortized loss on debt	79	85	51	57
Interest rate swaps	54	44		
Accumulated cost of removal of utility plant	111	98	111	98
AROs	72	44		
Other	8	13		1
Total noncurrent regulatory assets	\$ 1,253	\$ 1,246	\$ 772	\$ 772
Current Regulatory Liabilities:				
Generation supply charge	\$ 33	\$ 23	\$ 33	\$ 23
Gas supply clause	4	3		
Transmission service charge	2	8	2	8
Fuel adjustment clause	1	4		
Transmission formula rate	42	20	42	20
Universal service rider		10		10
Storm damage expense	1	14	1	14
Gas line tracker	5	6		
Other	4	2	3	1
Total current regulatory liabilities	\$ 92	\$ 90	\$ 81	\$ 76
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 697	\$ 688		
Coal contracts (a)	69	98		
Power purchase agreement - OVEC (a)	94	100		
Net deferred tax assets	27	30		
Act 129 compliance rider	18	15	\$ 18	\$ 15
Defined benefit plans	29	26		
Interest rate swaps	90	86		
Other	4	5		
Total noncurrent regulatory liabilities	\$ 1,028	\$ 1,048	\$ 18	\$ 15

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	LKE		LG&E		KU	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013

Current Regulatory Assets:

Environmental cost recovery	\$	3	\$	7	\$	3	\$	2	\$	5
Gas supply clause		20		10		20		10		
Fuel adjustment clause				2				2		
Demand side management				8				3		5
Other		2						\$ 2		
Total current regulatory assets	\$	25	\$	27	\$	23	\$	17	\$	10

Noncurrent Regulatory Assets:

Defined benefit plans	\$	236	\$	252	\$	159	\$	164	\$	77	\$	88
Storm costs		83		94		45		51		38		43
Unamortized loss on debt		28		28		18		18		10		10
Interest rate swaps		54		44		52		44		2		
AROs		72		44		27		21		45		23
Other		8		12		4		5		4		7
Total noncurrent regulatory assets	\$	481	\$	474	\$	305	\$	303	\$	176	\$	171

Current Regulatory Liabilities:

Gas supply clause	\$	4	\$	3	\$	4	\$	3				
Fuel adjustment clause		1		4				\$ 1		4		
Gas line tracker		5		6		5		6				
Other		1		1				1		1		
Total current regulatory liabilities	\$	11	\$	14	\$	9	\$	9	\$	2	\$	5

	LKE		LG&E		KU	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal						
of utility plant	\$ 697	\$ 688	\$ 305	\$ 299	\$ 392	\$ 389
Coal contracts (a)	69	98	30	43	39	55
Power purchase agreement - OVEC (a)	94	100	65	69	29	31
Net deferred tax assets	27	30	24	26	3	4
Defined benefit plans	29	26			29	26
Interest rate swaps	90	86	45	43	45	43
Other	4	5	2	2	2	3
Total noncurrent regulatory liabilities	\$ 1,010	\$ 1,033	\$ 471	\$ 482	\$ 539	\$ 551

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

Regulatory Matters

U. K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In March 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during the first quarter of 2014 WPD increased its existing liability by \$65 million for over-recovery of line losses with a reduction to "Utility" revenues on the Statement of Income. The total recorded liability at September 30, 2014 was \$105 million, all of which will be refunded to customers from April 1, 2015 through March 31, 2019. The recorded liability at December 31, 2013 was \$74 million. Other activity impacting the liability included reductions in the liability that have been included in tariffs and foreign exchange movements. In June 2014, WPD applied for judicial review of certain of Ofgem's decisions related to closing out the DPCR4 line loss mechanism. The court has set a hearing for November 20, 2014 to hear WPD's application for permission to seek judicial review. The primary relief sought is for Ofgem to reconsider the overall proportionality of penalties imposed on WPD. The entire process could last through the second quarter of 2015. PPL cannot predict the outcome of this matter.

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

CPCN Filings

In January 2014, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to build an NGCC generating unit, Green River Unit 5, at KU's Green River generating site and a solar generating facility at the E. W. Brown generating site. In April 2014, LG&E and KU filed a motion to hold further proceedings in abeyance to allow the companies to assess the potential impact of certain events on their future capacity needs, including the receipt of termination notices to be generally effective in 2019 from certain KU municipal wholesale customers. In August 2014, LG&E and KU submitted a motion to withdraw their request to construct the Green River NGCC and the KPSC issued an order granting that request. LG&E's and KU's CPCN application continues to request approval to construct the E. W. Brown solar generating facility. LG&E and KU entered into a stipulation in this proceeding agreeing to certain matters with some interveners. A hearing is scheduled to be held in November 2014, and a final

order is anticipated before the end of the year. See "Federal Matters - FERC Wholesale Formula Rates" below for additional information relating to the municipal wholesale customers.

Rate Case Proceedings

On November 4, 2014, LG&E and KU announced that on November 26, 2014, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The proposed base rate increases would result in electricity rate increases of 2.7% at LG&E and 9.6% at KU and a gas rate increase of 4.2% at LG&E and would become effective in July 2015. LG&E's and KU's applications each include a request for authorized returns-on-equity of 10.50%. The applications are based on a forecasted test year of July 1, 2015 through June 30, 2016. LG&E and KU cannot predict the outcome of these proceedings.

Pennsylvania Activities (PPL and PPL Electric)

Storm Damage Expense Rider

In its December 2012 final rate case order, the PUC directed PPL Electric to file a proposed Storm Damage Expense Rider (SDER). In March 2013, PPL Electric filed its proposed SDER with the PUC and, as part of that filing, requested recovery of the 2012 qualifying storm costs related to Hurricane Sandy. PPL Electric proposed that the SDER become effective January 1, 2013 at a zero rate with qualifying storm costs incurred in 2013 and the 2012 Hurricane Sandy costs included in rates effective January 1, 2014. As of December 31, 2013, PPL Electric had a \$14 million regulatory liability balance for amounts expected to be refunded to customers for revenues collected to cover storm costs in excess of actual storm costs incurred during 2013. In April 2014, the PUC issued a final order approving the SDER. The SDER will be effective January 1, 2015 and initially include actual storm costs compared to collections from December 2013 through November 2014. As a result of the order, PPL Electric reduced its regulatory liability by \$12 million. Also, as part of the order, PPL Electric can recover Hurricane Sandy storm damage costs through the SDER over a three-year period beginning January 2015. On June 20, 2014, the Office of Consumer Advocate filed a petition for review of the April 2014 order with the Commonwealth Court of Pennsylvania. The case remains pending. See "Storm Costs" below for additional information on Hurricane Sandy costs.

Storm Costs

In February 2013, PPL Electric received an order from the PUC granting permission to defer qualifying costs in excess of insurance recoveries associated with Hurricane Sandy. At September 30, 2014 and December 31, 2013, \$29 million was included on the Balance Sheets as a regulatory asset.

Act 129

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

Act 129 requires Default Service Providers (DSP) to provide electricity 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 load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

In January 2013, the PUC approved PPL Electric's DSP procurement plan for the period June 1, 2013 through May 31, 2015. In April 2014, PPL Electric filed a new DSP procurement plan with the PUC for the period June 1, 2015 through May 31, 2017. In September 2014, the parties filed with the presiding Administrative Law Judge a partial settlement resolving all but two issues in the proceeding related to the structure of the DSP, without direct financial impact on PPL Electric. The parties filed briefs on those two issues. In October 2014, a Recommended Decision was issued approving the partial settlement. This proceeding remains pending before the PUC but is not expected to have a material impact on PPL Electric.

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the Act 129 requirements. PPL Electric recovered the cost of its evaluations through a cost recovery mechanism, the Smart Meter Rider (SMR). In August 2013, PPL Electric filed with the PUC an annual report describing the actions it was taking under its Smart Meter Plan during 2013 and its planned actions for 2014. PPL Electric also submitted revised SMR charges that became effective January 1, 2014. On June 30, 2014, PPL Electric filed its final Smart Meter Plan with the PUC. In that plan, PPL Electric proposes to replace all of its current meters with advanced meters that meet the Act 129 requirements. Full deployment of the new meters is expected to be complete by the end of 2019. The total cost of the project is estimated to be approximately \$450 million. PPL Electric proposes to recover these costs through the SMR which the PUC previously has approved for recovery of such costs. The PUC assigned PPL Electric's plan to an Administrative Law Judge for hearings and preparation of a recommended decision. PPL Electric cannot predict the outcome of this proceeding.

Distribution System Improvement Charge

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, 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. Act 11 requires utilities to file an LTIP as a prerequisite to filing for recovery through the DSIC. The LTIP is mandated to be a five- to ten-year plan describing projects eligible for inclusion in the DSIC.

In September 2012, PPL Electric filed its LTIP describing projects eligible for inclusion in the DSIC and, in an order entered on May 23, 2013, the PUC approved PPL Electric's proposed DSIC with an initial rate effective July 1, 2013, subject to refund after hearings. The PUC also assigned four technical recovery calculation issues to the Office of Administrative Law Judge for hearing and preparation of a recommended decision. In August 2014, the presiding Administrative Law Judge issued a recommended decision which would not have a significant impact on PPL Electric. This matter remains pending before the PUC.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

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. The formula rate is calculated, in part, based on financial results as reported in PPL Electric's annual FERC Form 1 filed under the FERC's Uniform System of Accounts.

PPL Electric initiated its formula rate 2012, 2011 and 2010 Annual Updates. Each update was subsequently challenged by a group of municipal customers, whose challenges were opposed by PPL Electric. Between 2011 and 2013, numerous hearings before the FERC and settlement conferences were convened in an attempt to resolve these matters. Beginning in the second half of 2013, PPL Electric and the group of municipal customers exchanged confidential settlement proposals. In September 2014, the parties filed a Joint Offer of Settlement with the FERC resolving all issues in the pending challenges, and including refunds of certain insignificant amounts to the municipalities. The settlement judge certified the uncontested settlement to the FERC with a recommendation that it be approved.

FERC Wholesale Formula Rates (LKE and KU)

In September 2013, KU filed an application with the FERC to adjust the formula rate under which KU provides wholesale requirements power sales to 12 municipal customers. Among other changes, the application requests an amended formula whereby KU would charge cost-based rates with a subsequent true-up to actual costs, replacing the current formula which does not include a true-up. KU's application proposed an authorized return on equity of 10.7%. Certain elements, including the new formula rate, became effective April 23, 2014, subject to refund. In April 2014, nine municipalities submitted notices of termination, under the original notice period provisions, to cease taking power under the wholesale requirements contracts. Such terminations are to be effective in 2019, except in the case of one municipality with a 2017 effective date. In July 2014, KU agreed on settlement terms with the two municipal customers that did not provide termination notices and filed the settlement proposal with the FERC for its

approval. In August 2014, the FERC issued an order on the interim settlement agreement allowing the proposed rates to become effective pending a final order. If approved, the settlement agreement will resolve the rate case with respect to these two municipalities, including an authorized return on equity of 10% or the return on equity awarded to other parties in this case, whichever is lower. Also in July 2014, KU made a contractually required filing with the FERC that addressed certain rate recovery matters affecting the nine terminating municipalities during the remaining term of their contracts. KU and the terminating municipalities continue settlement discussions in this proceeding. KU cannot currently predict the outcome of its FERC applications regarding its wholesale power agreements with the municipalities.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

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 and commercial paper programs of PPL Energy Supply, PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	September 30, 2014				December 31, 2013			
		Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Issued	Unused Capacity	
PPL									
U.K.									
PPL WW Syndicated									
Credit Facility	Dec. 2016	£ 210	£ 97		£ 113	£ 103			
WPD (South West)									
Syndicated Credit Facility	July 2019	245			245				
WPD (East Midlands)									
Syndicated Credit Facility	July 2019	300			300				
WPD (West Midlands)									
Syndicated Credit Facility	July 2019	300			300				
Uncommitted Credit Facilities		105		£ 5	100		£ 5		
Total U.K. Credit Facilities (a)		£ 1,160	£ 97	£ 5	£ 1,058	£ 103	£ 5		
U.S.									
PPL Capital Funding									
Syndicated Credit Facility	July 2019	\$ 300			\$ 300				
Syndicated Credit Facility (b)	Nov. 2018	300			300	\$ 270			
Bilateral Credit Facility	Mar. 2015	150			150				
Uncommitted Credit Facility		65			65				

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Total PPL Capital Funding Credit Facilities							
		\$	815		\$	815	\$ 270
PPL Energy Supply							
Syndicated Credit Facility (b)	Nov. 2017	\$	3,000	\$	590	\$	82
		\$		\$		\$	2,328
		\$		\$		\$	29
Letter of Credit Facility	Mar. 2015		150		113		37
							138
Uncommitted Credit Facilities			175		74		101
							77
Total PPL Energy Supply Credit Facilities							
		\$	3,325	\$	590	\$	269
		\$		\$		\$	2,466
		\$		\$		\$	244
PPL Electric							
Syndicated Credit Facility	July 2019	\$	300	\$	1	\$	299
		\$		\$		\$	21
LKE							
Syndicated Credit Facility (b)	Oct. 2018	\$	75	\$	75		\$ 75
LG&E							
Syndicated Credit Facility	July 2019	\$	500	\$	143	\$	357
		\$		\$		\$	20
KU							
Syndicated Credit Facility	July 2019	\$	400	\$	130	\$	270
		\$		\$		\$	150
Letter of Credit Facility (c)	May 2016		198		198		198
Total KU Credit Facilities							
		\$	598	\$	328	\$	270
		\$		\$		\$	348

(a) PPL WW's amounts borrowed at September 30, 2014 and December 31, 2013 were USD-denominated borrowings of \$161 million and \$166 million, which bore interest at 1.86% and 1.87%. At September 30, 2014, the unused capacity under the U.K. credit facilities was \$1.8 billion.

(b) At September 30, 2014, interest rates on outstanding borrowings were 2.04% for PPL Energy Supply and 1.66% for LKE. At December 31, 2013, interest rates on outstanding borrowings were 1.79% for PPL Capital Funding and 1.67% for LKE.

(c) In October 2014, the KU letter of credit facility was terminated and replaced with a new letter of credit facility with the same capacity expiring October 2017.

PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are

supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	Weighted - Average Interest Rate	September 30, 2014			December 31, 2013	
		Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Electric		\$ 300		\$ 300	0.23%	\$ 20
LG&E	0.29%	350	\$ 143	207	0.29%	20
KU	0.29%	350	130	220	0.32%	150
Total		\$ 1,000	\$ 273	\$ 727		\$ 190

In August 2014, PPL Energy Supply terminated its commercial paper program.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, which provides PPL Energy Supply 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, 2014, PPL Energy Supply had 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 2018, but is subject to automatic one-year renewals under certain conditions. There were \$59 million of secured obligations outstanding under this facility at September 30, 2014.

(PPL Electric and LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In March 2014, PPL Capital Funding remarketed \$978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired \$228 million of the 4.32% Junior Subordinated Notes due 2019 and issued \$350 million of 2.189% Junior Subordinated Notes due 2017 and \$400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for \$350 million of 3.95% Senior Notes due 2024 and \$400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a \$(9) million gain (loss) on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the \$228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and was excluded from the Statement of Cash Flows for the nine months ended September 30, 2014. In May 2014, PPL issued 31.7 million

shares of common stock at \$30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of \$978 million, which were used to repay short-term debt and for general corporate purposes.

(PPL and PPL Energy Supply)

In August 2014, PPL Energy Supply repaid the entire \$300 million principal amount of its 5.40% Senior Notes upon maturity.

(PPL and PPL Electric)

In June 2014, PPL Electric issued \$300 million of 4.125% First Mortgage Bonds due 2044. PPL Electric received proceeds of \$294 million, net of a discount and underwriting fees, which were used for capital expenditures, to repay short-term debt and for general corporate purposes.

Distributions (PPL)

In August 2014, PPL declared its quarterly common stock dividend, payable October 1, 2014, at 37.25 cents per share (equivalent to \$1.49 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.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are 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. See Note 8 in the 2013 Form 10-K for additional information.

Divestitures

Anticipated Spinoff of PPL Energy Supply

(PPL and PPL Energy Supply)

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy. Under the terms of the agreements, at closing, PPL will spin off to PPL shareowners the parent of PPL Energy Supply, recently formed for purposes of this transaction, which by merging with a special purpose subsidiary of Talen Energy, will immediately thereafter become a subsidiary of Talen Energy. Substantially contemporaneous with the spinoff and merger, RJS Power will be contributed, directly or indirectly, by its owners to become a subsidiary of Talen Energy. Following completion of these transactions, PPL shareowners will own 65% of Talen Energy and affiliates of Riverstone will own 35%. PPL will have no continuing ownership interest in, control of, or affiliation with Talen Energy and PPL's shareowners will receive a number of Talen Energy shares at closing based on the number of PPL shares owned as of the spinoff record date. The spinoff will have no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes and is subject to customary closing conditions, including receipt of certain regulatory approvals by the NRC, FERC, DOJ and PUC. In addition, there must be available, subject to certain conditions, at least \$1 billion of undrawn capacity after excluding any letters of credit or other credit support measures posted in connection with energy marketing and trading transactions then outstanding, under a Talen Energy (or its subsidiaries) revolving credit or similar facility. The transaction is expected to close in the first or second quarter of 2015.

(PPL, PPL Energy Supply and PPL Electric)

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in the third quarter of 2014 and staffing selections are in progress and expected to be completed by the end of 2014.

The new organizational plans identify the need to resize and restructure the organizations of both PPL and PPL Energy Supply. As a result, during the third quarter of 2014, estimated charges for employee separation benefits were recorded in "Other operation and maintenance" on the Statement of Income and in "Other current liabilities" on the Balance Sheet as follows.

	PPL	PPL Energy Supply	PPL Electric
Separation benefits	\$ 30	\$ 12	\$ 1
Number of positions	265	100	10

The separation benefits incurred include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. As staffing selections are completed, revisions to the estimated costs will be recognized primarily in the fourth quarter of 2014.

Additional costs to be incurred include accelerated stock based compensation and pro-rated performance based cash incentive and stock based compensation awards primarily for PPL Energy Supply employees and for PPL employees who will become PPL Energy Supply employees in connection with the transaction. These costs will be recognized at the spinoff closing date. PPL and PPL Energy Supply estimate these additional costs will be in the range of \$30 million to \$40 million.

(PPL)

As a result of the spinoff announcement, PPL recorded \$3 million and \$49 million of deferred income tax expense during the three and nine months ended September 30, 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

In addition, PPL recorded \$5 million and \$21 million of third-party costs during the three and nine months ended September 30, 2014 related to this transaction primarily in "Other Income (Expense) - net" on the Statement of Income, for investment bank advisory, legal, consulting and accounting fees. PPL currently estimates a range of total third-party costs that will ultimately be incurred of between \$60 million and \$70 million.

The assets and liabilities of PPL Energy Supply will continue to be classified as "held and used" on PPL's Balance Sheet until the closing of the transaction. The spinoff announcement was evaluated and determined not to be an event or a change in circumstance that required a recoverability test or a goodwill impairment assessment. However, an impairment loss could be recognized by PPL at the spinoff date if the aggregate carrying amount of PPL Energy Supply's assets and liabilities exceeds its aggregate fair value at that date. PPL cannot currently predict whether an impairment loss will be recorded at the spinoff date.

(PPL Energy Supply)

PPL Energy Supply will treat the combination with RJS Power as an acquisition, as PPL Energy Supply will be considered the accounting acquirer in accordance with business combination accounting guidance.

Discontinued Operations

Montana Hydro Sale Agreement (PPL and PPL Energy Supply)

In September 2013, PPL Montana executed a definitive agreement to sell to NorthWestern 633 MW of hydroelectric generating facilities located in Montana for \$900 million in cash, subject to certain adjustments. Total net cash proceeds of the sale are currently estimated to be \$880 million. The sale includes 11 hydroelectric power facilities and related assets, included in the Supply segment.

In September 2014, the MPSC approved the transaction. As a result, these hydroelectric generating facilities met the "held for sale" criteria in the third quarter of 2014. The sale is expected to close in the fourth quarter of 2014.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended September 30.

Three Months		Nine Months	
2014	2013	2014	2013

Operating revenues	\$	33	\$	31	\$	103	\$	110
Operating expenses		20		20		77		59
Operating income (loss)		13		11		26		51
Interest expense (a)		2		2		6		8
Income (loss) before income taxes		11		9		20		43
Income tax expense (benefit)		4		3		10		15
Income (Loss) from Discontinued Operations	\$	7	\$	6	\$	10	\$	28

(a) Represents allocated interest expense based upon debt attributable to the generation facilities being sold.

The major classes of "Assets of discontinued operations" on the Balance Sheet at September 30, 2014, were \$544 million of PP&E, net and \$82 million of Goodwill for PPL (\$14 million for PPL Energy Supply). Corresponding amounts at December 31, 2013 were \$614 million of PP&E, net, and similar amounts for Goodwill, which have not been reclassified on the Balance Sheet as of that date.

Development

Hydroelectric Expansion Projects (PPL and PPL Energy Supply)

In January 2014, the U.S. Department of Treasury awarded \$56 million for Specified Energy Property in Lieu of Tax Credits for the Rainbow hydroelectric redevelopment project in Great Falls, Montana. PPL Energy Supply accepted and accounted for the receipt of the grant in the first quarter of 2014. PPL Energy Supply was required to recapture \$60 million of investment tax credits previously recorded related to the Rainbow project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits was included in "Income (Loss) from Discontinued Operations (net of income taxes)" and was not significant for the three and nine months ended September 30, 2014, and will not be significant in future periods.

In July 2014, the U.S. Department of Treasury awarded \$108 million for Specified Energy Property in Lieu of Tax Credits for the Holtwood hydroelectric project in Holtwood, Pennsylvania. PPL Energy Supply accepted and accounted for the receipt of the grant in the third quarter of 2014. PPL Energy Supply was required to recapture \$117 million of investment tax credits previously recorded related to the Holtwood project as a result of the grant receipt. The impact on the financial statements for the grant receipt and recapture of investment tax credits was not significant for the three and nine months ended September 30, 2014, and will not be significant in future periods.

Future Capacity Needs (PPL, LKE, LG&E and KU)

Construction activity continues on the previously announced NGCC unit, Cane Run Unit 7, scheduled to be operational in May 2015. In October 2013, LG&E and KU announced plans to build a second NGCC unit, Green River Unit 5, at KU's Green River generating site. Subject to finalizing details, regulatory applications, permitting and construction schedules, the facility was to have approximately 700 MW of capacity at a cost of \$700 million and was originally planned to be operational in 2018. At the same time, LG&E and KU also announced plans for a 10 MW solar generation facility to be operational in 2016 at a cost of approximately \$36 million. In August 2014, LG&E and KU submitted a motion to withdraw their request to construct the Green River NGCC and the KPSC issued an order granting that request. LG&E's and KU's CPCN application continues to request approval to construct the E. W. Brown solar generating facility. A final Order is anticipated during the first quarter of 2015.

9. Defined Benefits

(PPL, PPL Energy Supply and PPL Electric)

Effective July 1, 2014, PPL's primary defined benefit pension plan and postretirement medical plan were closed to newly hired IBEW Local 1600 employees. All of PPL's defined benefit pension plans are now closed to newly hired employees.

(All Registrants except PPL Electric and KU)

Certain net periodic defined benefit costs are applied to accounts that are further distributed between capital and expense, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. 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

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	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2014	2013	2014	2013	2014	2013	2014	2013
PPL								
Service cost	\$ 26	\$ 31	\$ 18	\$ 18	\$ 77	\$ 94	\$ 54	\$ 52
Interest cost	58	53	90	79	175	160	268	238
Expected return on plan assets	(75)	(73)	(133)	(115)	(224)	(220)	(395)	(346)
Amortization of:								
Prior service cost	5	6			15	17		
Actuarial (gain) loss	8	20	34	37	23	60	100	112
Net periodic defined benefit								
costs (credits) prior to								
termination benefits	22	37	9	19	66	111	27	56
Termination benefits (a)	(7)				13			
Net periodic defined benefit								
costs (credits)	\$ 15	\$ 37	\$ 9	\$ 19	\$ 79	\$ 111	\$ 27	\$ 56

(a) See Note 10 for details of a one-time voluntary retirement window offered to certain bargaining unit employees.

	Pension Benefits			
	Three Months		Nine Months	
	2014	2013	2014	2013
PPL Energy Supply				
Service cost	\$ 1	\$ 1	\$ 4	\$ 5
Interest cost	3	2	7	6
Expected return on plan assets	(3)	(2)	(8)	(7)
Amortization of:				
Actuarial (gain) loss		1	1	2
Net periodic defined benefit costs (credits)	\$ 1	\$ 2	\$ 4	\$ 6
LKE				
Service cost	\$ 5	\$ 6	\$ 16	\$ 19
Interest cost	17	16	50	47
Expected return on plan assets	(21)	(20)	(62)	(61)
Amortization of:				
Prior service cost	1	1	3	3
Actuarial (gain) loss	4	8	10	25
Net periodic defined benefit costs (credits)	\$ 6	\$ 11	\$ 17	\$ 33
LG&E				
Service cost		\$ 1	\$ 1	\$ 2
Interest cost	\$ 4	3	11	10
Expected return on plan assets	(4)	(5)	(14)	(15)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	1	3	4	10
Net periodic defined benefit costs (credits)	\$ 2	\$ 3	\$ 4	\$ 9
Other Postretirement Benefits				
	Three Months		Nine Months	
	2014	2013	2014	2013
PPL				
Service cost	\$ 3	\$ 4	\$ 9	\$ 11
Interest cost	8	7	24	21
Expected return on plan assets	(6)	(6)	(19)	(18)
Amortization of:				
Actuarial (gain) loss		1		4
Net periodic defined benefit costs (credits)	\$ 5	\$ 6	\$ 14	\$ 18
LKE				
Service cost	\$ 1	\$ 2	\$ 3	\$ 4
Interest cost	2	2	7	6
Expected return on plan assets	(1)	(2)	(4)	(4)

Amortization of:

Prior service cost		1		1		2		2
Net periodic defined benefit costs (credits)	\$	3	\$	3	\$	8	\$	8

(All Registrants except PPL)

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 defined benefit costs to PPL Energy Supply subsidiaries and PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU.

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL Energy Supply (a)	\$ 2	\$ 11	\$ 32	\$ 34
PPL Electric (a)	3	9	18	27
LG&E	2	3	6	9
KU	2	4	6	13

(a) For PPL Energy Supply and PPL Electric, the three months ended September 30, 2014 include \$(5) million and \$(2) million and the nine months ended September 30, 2014 include \$11 million and \$2 million of termination benefits related to a one-time voluntary retirement window offered to certain bargaining unit employees. See Note 10 for additional information.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL Electric)

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

Legal Matters

(All Registrants)

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.

WKE Indemnification (PPL and LKE)

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

(PPL and PPL Energy Supply)

Sierra Club Litigation

On March 6, 2013, the Sierra Club and the MEIC filed a complaint in the U.S. District Court, District of Montana, Billings Division against PPL Montana and the other Colstrip Steam Electric Station (Colstrip) co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, NorthWestern and PacifiCorp. PPL Montana operates Colstrip on behalf of the co-owners. The suit alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements and listed 39 separate claims for relief. The complaint requests injunctive relief and civil penalties on average of \$36,000 per day per violation, including a request that the owners remediate environmental damage and that \$100,000 of the civil penalties be used for beneficial mitigation projects.

In July 2013, the Sierra Club and MEIC filed an additional Notice, identifying additional plant projects that are alleged not to be in compliance with the Clean Air Act and, in September 2013, filed an amended complaint. The amended complaint dropped all claims regarding pre-2001 plant projects, as well as the plaintiffs' Title V and opacity claims. It did, however, add claims with respect to a number of post-2000 plant projects, which effectively increased the number of projects subject to the litigation by about 40. PPL Montana and the other Colstrip owners filed a motion to dismiss the amended complaint in October 2013. In May 2014, the court dismissed the plaintiffs' independent Best Available Control Technology claims and their Prevention of Significant Deterioration (PSD) claims for three projects, but denied the owners' motion to dismiss the plaintiffs' other PSD claims on statute of limitation grounds. In October 2014, trial as to liability in this matter was re-scheduled to August 2015. A trial date with

respect to remedies, if there is a finding of liability, has not been scheduled. On August 27, 2014, the Sierra Club and MEIC filed a second amended complaint. This complaint includes the same causes of action articulated in the first amended complaint, but alleges those claims in regard to only eight projects at the plant between 2001 and 2013. On September 26, 2014, the Colstrip owners filed an answer to the second amended complaint. Discovery is ongoing. PPL Montana believes it and the other co-owners have numerous defenses to the allegations set forth in this complaint and will vigorously assert the same. PPL Montana cannot predict the ultimate outcome of this matter at this time.

Notice of Intent to File Suit

On October 20, 2014, PPL Energy Supply received a notice letter from the Chesapeake Bay Foundation (CBF) alleging violations of the Clean Water Act and Pennsylvania Clean Streams Law at the Brunner Island generation plant. The letter was sent to PPL Brunner Island and the PADEP and is intended to provide notice of the alleged violations and CBF's intent to file suit in Federal court after expiration of the 60 day statutory notice period. Among other things, the letter alleges that PPL Brunner Island failed to comply with the terms of its National Pollutant Discharge Elimination System permit and associated

regulations related to the application of nutrient credits to the facility's discharges of nitrogen to the Susquehanna River. The letter also alleges that PADEP has failed to ensure that credits generated from nonpoint source pollution reduction activities that PPL Brunner Island applies to its discharges meet the eligibility and certification requirements under PADEP's nutrient trading program regulations. If a court-approved settlement cannot be reached, CBF plans to seek injunctive relief, monetary penalties, fees and costs of litigation. PPL and PPL Energy Supply cannot predict the outcome of this matter.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

On December 16, 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, on July 17, 2014 the court dismissed the plaintiffs' RCRA claims and all but one of its Clean Air Act claims, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the common law claims are preempted by statute, but the U.S. Court of Appeals for the Sixth Circuit has yet to accept the case for review. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on operations of the Cane Run plant. LG&E has previously announced that it anticipates retiring the coal-fired units at Cane Run before the end of 2015.

Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleges that various discharges at the Mill Creek plant constitute violations of the plant's water discharge permit. The Sierra Club seeks civil penalties, injunctive relief, plus costs and attorney's fees. PPL, LKE and LG&E cannot predict the outcome of this matter or the potential impact on the operations of the Mill Creek plant but believe the plant is operating in compliance with the permits.

Regulatory Issues

(All Registrants except PPL Energy Supply)

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

(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 (the Act). To create incentives for the development of new, in-state electricity generation facilities, the Act implemented 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 encourage necessary generation investment throughout PJM.

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 and Commerce clauses of the U.S. Constitution and requesting declaratory and injunctive relief barring implementation of the Act by the BPU Commissioners. In October 2013, the U.S. District Court in New Jersey issued a decision finding the Act unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Third Circuit (Third Circuit) by CPV Power Development, Inc., Hess Newark, LLC and the State of New Jersey. In September 2014, the Third Circuit affirmed the District Court's decision.

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 electricity 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 (District Court) 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, and requested declaratory and injunctive relief barring implementation of the order by the MD PSC Commissioners. In September 2013, the District Court issued a decision finding the MD PSC order unconstitutional under the Supremacy Clause on the grounds that it infringes upon the FERC's exclusive authority to regulate the wholesale sale of electricity in interstate commerce. The decision was appealed to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit) by CPV Power Development, Inc. and the State of Maryland. In June 2014, the Fourth Circuit affirmed the District Court's opinion and subsequently denied the appellants' motion for rehearing.

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, the FERC initiated proceedings to consider additional evidence. In July 2012, PPL Montana and the City of Tacoma, one of the two parties claiming refunds at FERC, reached a settlement whereby PPL Montana paid \$75 thousand to resolve the City of Tacoma's \$23 million claim. The settlement does not resolve the remaining claim outstanding at September 30, 2014 by the City of Seattle for approximately \$50 million. Hearings before a FERC Administrative Law Judge (ALJ) regarding the City of Seattle's refund claims were completed in October 2013 and briefing was completed in January 2014. In March 2014, the ALJ issued an initial decision denying the City of Seattle's complaint against PPL Montana. The initial decision is pending review by the FERC.

Although PPL and its subsidiaries believe 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.

(All Registrants)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E, KU and PPL EnergyPlus to make wholesale sales of electricity 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. In December 2013, PPL and these subsidiaries filed market-based rate updates for the Eastern and Western regions. In June 2014, the FERC accepted PPL's and its subsidiaries' updated market power analysis finding that they qualify for continued market-based rate authority in the Western region, which acceptance became final in July 2014. The filings for the Eastern region remain pending before the FERC. The Registrants cannot predict the ultimate outcome of the update filings for the Eastern region at this time.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties of up to \$1 million per day, per violation, for certain violations.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any Regional Reliability Entity (including 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.

As previously reported, in October 2012, the FERC initiated its consideration of proposed changes to Reliability Standards to address the impacts of geomagnetic disturbances on the reliable operation of the bulk-power system, which might, among other things, lead to a requirement to install equipment that blocks geomagnetically induced currents on implicated transformers. On May 16, 2013, FERC issued Order No. 779, requiring NERC to submit two types of Reliability Standards for FERC's approval. The first type would require certain owners and operators of the nation's electricity infrastructure, such as the Registrants, to develop and implement operational procedures to mitigate the effects of geomagnetic disturbances on the bulk-power system. This NERC-proposed standard was filed by NERC with FERC for approval in January 2014 and was approved on June 19, 2014. The second type is to require owners and operators of the bulk-power system to assess certain geomagnetic disturbance events and develop and implement plans to protect the bulk-power system from those events and must be filed by NERC with FERC for approval by January 22, 2015. The Registrants may be required to make significant expenditures in new equipment or modifications to their facilities to comply with the new requirements. The Registrants are unable to predict the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Environmental Matters - Domestic

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain 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, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which are applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to related environmental compliance costs is reduced. As PPL Energy Supply is not a rate-regulated entity, it cannot seek to recover environmental compliance costs through

the mechanism of rate recovery. 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.

(All Registrants except PPL Electric)

Air

CSAPR (formerly Clean Air Transport Rule) and CAIR

In July 2011, the EPA adopted the CSAPR. The CSAPR replaced the EPA's previous CAIR which was invalidated in July 2008 by the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court). The CAIR subsequently was effectively reinstated by the D.C. Circuit Court in December 2008, pending finalization of the CSAPR. Like the CAIR, the CSAPR targeted sources in the eastern U.S. and would have required reductions in sulfur dioxide and nitrogen oxides in two phases (2012 and 2014).

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In December 2011, the D.C. Circuit Court stayed implementation of the CSAPR and left the CAIR in effect pending a final decision on the validity of the rule. In August 2012, the D.C. Circuit Court issued a ruling invalidating the CSAPR, remanding the rule to the EPA for further action, and leaving the CAIR in place during the interim. In April 2014, the U.S. Supreme Court reversed and remanded the D.C. Circuit Court's August 2012 decision, and on October 23, 2014, the D.C. Circuit Court lifted the stay of CSAPR, granting EPA's request.

PPL, PPL Energy Supply, LKE, LG&E and KU are preparing for Phase 1 annual trading programs for nitrogen oxide and sulfur dioxide to commence on January 1, 2015. Phase 1 ozone season trading will begin on May 1, 2015. Phase 2 reductions impacting the annual and ozone season trading programs would take effect in 2017 and continue into the future. Based on analyses conducted in 2011 to prepare for CSAPR compliance, PPL, PPL Energy Supply, LKE, LG&E and KU do not anticipate significant compliance costs, however these analyses will be reviewed under current market and operating conditions to make further assessments on compliance impacts.

National Ambient Air Quality Standards

In 2008, the EPA revised the National Ambient Air Quality Standard for ozone. As a result, states in the ozone transport region (OTR), including Pennsylvania, are required by the Clean Air Act to impose additional reductions in nitrogen oxide emissions based upon reasonably available control technologies. The PADEP has issued a draft rule requiring reasonable reduction; however, the proposal is being questioned as too lenient by the EPA, other OTR states and environmental groups. The PADEP may impose more stringent emission limits than those set forth in the proposed rule which could have a significant impact on PPL Energy Supply's Pennsylvania coal plants. The EPA is expected to further tighten the ozone standard in the near term, which may require further nitrogen oxide reductions, particularly within the OTR.

In December 2012, the EPA issued final rules that tighten the National Ambient Air Quality Standard for fine particulates. The rules were challenged by industry groups, and on May 9, 2014 the D.C. Circuit Court upheld them. Under the final rules, states and the EPA have until 2015 to identify non-attainment areas, and states have until 2020 to achieve attainment for those areas.

In 2010, the EPA finalized a new National Ambient Air Quality Standard for sulfur dioxide and required states to identify areas that meet those standards and areas that are in non-attainment. In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Yellowstone County in Montana (Billings area) and part of Jefferson County in Kentucky. Attainment must be achieved by 2018. States are working on designations for other areas. In April 2014, the EPA proposed timeframes for completing these designations. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR or the CSAPR (as discussed above), or the MATS, or the Regional Haze requirements (as discussed below), such as upgraded or new sulfur dioxide scrubbers at certain 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 to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the financial impact could be significant. The short-term impact on the Corette plant from the EPA's final designation of part of Yellowstone County in Montana as non-attainment (as noted above) is not expected to be significant, as PPL Energy Supply previously announced its intent to place the plant in long-term reserve status beginning in April 2015.

Until final rules are promulgated, non-attainment designations are finalized and state compliance plans are developed, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the ultimate outcome of the new National Ambient Air Quality standards for ozone, sulfur dioxide and particulate matter.

MATS

In May 2011, the EPA published a proposed regulation requiring stringent reductions of mercury and other hazardous air pollutants from power plants. In February 2012, the EPA published the final rule, known as the MATS, with an effective date of April 16, 2012. The rule, which was challenged by industry groups and states, was upheld by the D.C. Circuit Court in April 2014. On July 14, 2014, a coalition of 23 states filed a petition seeking Supreme Court review of this decision. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. LG&E, KU and PPL Energy Supply have received compliance extensions for certain plants and PPL Energy Supply has a pending request, which was submitted on September 15, 2014, for its Colstrip plant.

At the time the MATS rule was proposed, LG&E and KU filed requests with the KPSC for environmental cost recovery based on their expected need to install environmental controls including chemical additive and fabric-filter baghouses to remove air pollutants. Recovery of the cost of certain controls was granted by the KPSC in December 2011. LG&E's and

KU's anticipated retirement of certain coal-fired electricity generating units located at Cane Run and Green River is in response to MATS and other environmental regulations.

With respect to PPL Energy Supply's Pennsylvania plants, PPL Energy Supply believes that installation of chemical additive systems and other controls may be necessary at certain coal-fired plants, the capital cost of which is not expected to be significant. PPL Energy Supply continues to analyze the potential impact of MATS on operating costs. With respect to PPL Energy Supply's Montana plants, modifications to the 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 was determined to be impaired in December 2013. See Note 18 in PPL's and PPL Energy Supply's 2013 Form 10-K for additional information.

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

The EPA's regional haze programs were developed under the Clean Air Act to eliminate man-made visibility degradation by 2064. Under the programs, states are required to make reasonable progress every decade, through the application, among other things, of Best Available Retrofit Technology (BART) on power plants commissioned between 1962 and 1977.

The primary power plant emissions affecting visibility are sulfur dioxide, nitrogen oxides and particulates. To date, the focus of regional haze activity has been the western U.S. because the EPA had determined that the regional trading program in the eastern U.S. under the CSAPR satisfies BART requirements to reduce sulfur dioxide and nitrogen oxides. Although the D.C. Circuit Court recently lifted the CSAPR stay in response to a U.S. Supreme Court action in April 2014, (see "CSAPR/CAIR" discussion above), decisions by the EPA and the courts will determine whether power plants located in the eastern U.S., including PPL's plants in Pennsylvania and Kentucky, will be subject to additional reductions in sulfur dioxide and nitrogen oxides as required by BART. In addition, LG&E's Mill Creek Units 3 and 4 are required to reduce sulfuric acid mist emissions because they were determined to have a significant regional haze impact. These reductions are required in the regional haze state implementation plan that the Kentucky Division for Air Quality submitted to the EPA. LG&E is currently installing sorbent injection technology to comply with these reductions, the costs of which are not expected to be significant.

In Montana, the EPA Region 8 developed the regional haze plan as the MDEQ declined to do so. The EPA finalized the Federal Implementation Plan (FIP) for Montana in September 2012. The final FIP assumed no additional controls 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 "MATS" discussion above). Under the final FIP, Colstrip Units 1 and 2 may require additional controls, including the possible installation of an SNCR and other technology, to meet more stringent nitrogen oxides and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. Both PPL and environmental groups have appealed the final FIP to the U.S. Court of Appeals for the Ninth Circuit and litigation is ongoing.

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, but they have received no further communications from the EPA since providing their responses. In January 2009, PPL, PPL Energy Supply 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 and November 2012, PPL Montana received information requests from the EPA regarding projects undertaken during a Spring 2012 maintenance outage at Colstrip Unit 1. The EPA request remains an open matter. In September 2012, PPL Montana received an information request from the MDEQ regarding Colstrip Unit 1 and other projects. MDEQ formally suspended this request on June 6, 2014, in consideration of pending litigation (see "Legal Matters - Sierra Club Litigation" above). PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

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.

States and environmental groups also have commenced litigation alleging violations of the NSR regulations by coal-fired generating plants across the nation. See "Legal Matters" above for information on a lawsuit filed by environmental groups in March 2013 against PPL Montana and other owners of Colstrip.

If PPL subsidiaries are found to have violated NSR regulations by significantly increasing pollutants through a major plant modification, PPL, PPL Energy Supply, LKE, LG&E and KU would, among other things, be required to meet stringent permit limits reflecting Best Available Control Technology (BACT) for pollutants meeting the National Ambient Air Quality Standards (NAAQS) in the area and reflecting Lowest Achievable Emission Rates for pollutants not meeting the NAAQS in the area. The costs to meet such limits, including installation of technology at certain units, could be material.

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 coal-fired 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, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. 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 plant operations, including increased capital costs, if any.

Climate Change

(All Registrants)

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 new light-duty vehicle emissions standards that applied beginning with 2012 model year vehicles. The EPA also clarified that this standard, beginning in 2011, authorized regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. The EPA's rules were challenged in court and on June 23, 2014 the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG emissions under these provisions of the Clean Air Act but only for stationary sources that would otherwise have been subject to these provisions due to significant increases in emissions of other pollutants. As a result, any new sources or major modifications to an existing GHG source causing a net significant increase in GHG emissions must comply with BACT permit limits for GHGs if it would otherwise be subject to BACT or lowest achievable emissions rate limits due to significant increases in other pollutants.

In June 2013, President Obama released his Climate Action Plan that reiterates the goal of reducing greenhouse gas emissions in the U.S. "in the range of" 17% below 2005 levels by 2020 through such actions as regulating power plant emissions, promoting increased use of renewables and clean energy technology, and establishing tighter energy efficiency standards. Also, by Presidential Memorandum, the EPA was directed to issue a revised proposal for new power plants (a prior proposal was issued in 2012) by September 20, 2013, with a final rule in a timely fashion thereafter, and to issue proposed standards for existing plants by June 1, 2014 with a final rule to be issued by June 1, 2015. The EPA was further directed to require that states develop implementation plans for existing plants by June 30, 2016. The Administration's increase in its estimate of the "social cost of carbon" (which is used to calculate

benefits associated with proposed regulations) from \$23.80 to \$38 per metric ton in 2015 may also lead to more costly regulatory requirements. Additionally, the Climate Action Plan requirements related to preparing the U.S. for the impacts of climate change could affect the Registrants and others in the industry as modifications to electricity delivery systems to improve the ability to withstand major storms may be needed in order to meet those requirements.

The EPA's revised proposal to regulate new sources under Section 111(b) of the Clean Air Act was published in the Federal Register on January 8, 2014. Unlike the EPA's prior proposal, the EPA's revised proposal established separate emission standards for coal and gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially available, the revised proposal effectively precludes the construction of new coal plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable.

The EPA's proposed regulation addressing GHG emissions from existing power plants under Section 111(d) of the Clean Air Act was published in the Federal Register on June 18, 2014. The proposal contains state-specific rate-based reduction goals and guidelines for the development, submission, and implementation of state plans to achieve the state goals. State-specific

goals were calculated from 2012 data by applying EPA's very broad interpretation and definition of the Best System of Emission Reduction resulting in very stringent targets to be met in two phases (2020-2029 and 2030 and beyond). The EPA believes it has offered some flexibility to the states as to how state compliance plans can be crafted, including the option to demonstrate compliance on a mass basis and through multi-state collaborations. The EPA is also proposing potential state plan extensions based on the plan filed (single or multi-state). On October 30, 2014, the EPA issued a Notice of Data Availability seeking comments on several issues including providing additional flexibility in meeting compliance deadlines, addressing disparities in state-specific targets, and incorporating a regionalized approach to demonstrating compliance. The Registrants are analyzing the proposal and its potential impacts. The regulation of GHG emissions from existing power plants could have a significant industry-wide impact depending on the structure and stringency of the final rule and state implementation plans.

The EPA has also proposed a regulation under Section 111(b) of the Clean Air Act addressing GHG emissions from existing power plants that are modified or reconstructed; however, the Registrants do not expect a significant impact from this rulemaking as there are no plans to modify or reconstruct their existing plants in a manner that would trigger the standards under 111(b).

(PPL and PPL Energy Supply)

Based on the stringent reduction requirements in the EPA's proposed rule under Section 111(d), and based on information gained from public input, the PADEP is no longer expecting to achieve reductions required under the EPA's proposed rule by solely increasing efficiency at existing fossil-fuel plants and/or reducing their generation as set forth in the PADEP's April 10, 2014 white paper. On October 23, 2014, the Governor of Pennsylvania signed into law, Act 175 of 2014 requiring the PADEP to obtain General Assembly approval of any state plan addressing GHG emissions under the EPA's 111(d) rules for existing plants. The law includes provisions to minimize the exposure to a federal implementation plan due to legislative delay.

The MDEQ, at the request of the Governor of Montana, has issued a white paper outlining possible regulatory scenarios to implement the EPA's proposed Section 111(d) rule, including a combination of increasing energy efficiency at coal-fired plants, adding more low- and zero-carbon generation, and carbon sequestration at Colstrip. The white paper was made public in September 2014 and the MDEQ has held public meetings to present the white paper and gather comments.

(PPL, LKE, LG&E and KU)

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. In November 2011, the Council issued a final report to the Secretary of Kentucky's Energy and Environment Cabinet for consideration. The final report acknowledged that the recommendations would require additional review and analysis prior to implementation, and that many of the recommendations would likely require, in part, further legislative or regulatory actions. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant. In April 2014, the Kentucky General Assembly passed legislation which limits the measures which the Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures, and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions will make it more difficult for Kentucky to achieve the GHG reduction

levels which the EPA has proposed for Kentucky.

(All Registrants except PPL Electric)

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants and, although the decided cases to date have not sustained claims brought on the basis of these theories of liability, 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 Second Circuit 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 district court granted defendants' motions to dismiss the state common law claims. Plaintiffs appealed to the U.S. Court of Appeals for the Fifth Circuit and in May 2013, the Fifth Circuit affirmed the district court's dismissal of the case. Additional litigation in federal and state courts over such issues is continuing. The Registrants cannot predict the outcome of these lawsuits or estimate a range of reasonably possible losses, if any.

Renewable Energy Legislation

(All Registrants)

There has been interest in renewable energy legislation at both the state and federal levels; however, no legislation is expected to become law in 2014 at either the federal level or in the states in which PPL operates.

(PPL, PPL Energy Supply and PPL Electric)

In Pennsylvania, bills were introduced calling for an increase in Alternative Energy Portfolio Standard (AEPS) Tier 1 obligations and to create a \$25 million permanent funding program for solar generation. Bills (SB 1171 and HB 100) were also introduced to add natural gas as a qualified AEPS resource, and another bill (HB 1912) would repeal the AEPS Act entirely. All these bills remain in committee and are unlikely to advance.

(PPL and PPL Energy Supply)

An interim legislative committee in Montana is reviewing the state's Renewable Portfolio Standard (RPS) and recommended that the law continue without change. In New Jersey, a bill (S-1475) has been introduced to increase the current RPS standard to 30% from Class I sources by 2020. The chairman of the Senate Environmental Committee convened a workgroup to look at further changes to New Jersey's RPS law to enable New Jersey to meet emissions goals established in the state's Global Warming Response Act. A bill (S-2444) was subsequently introduced to mandate that 80% of New Jersey's electricity be generated from renewable resources by 2050. PPL and PPL Energy Supply are unable to predict the outcome of this legislation at this time.

(All Registrants)

The Registrants believe there are financial, regulatory and operational uncertainties related to the implementation of renewable energy mandates that will need to be resolved before the impact of such requirements on them can be estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation over-supply and downward pressure on energy prices 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 competitive plants' 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) (All Registrants except PPL Electric)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs (as either hazardous or non-hazardous) under the RCRA. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. Regulating CCRs as a hazardous waste under Subtitle C of the RCRA 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 EPA's proposed approach to regulate CCRs as non-hazardous waste under Subtitle D of the RCRA 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 EPA's proposed non-hazardous waste regulations, 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 or is implementing 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) requesting comments on selected documents it received during the comment period for the proposed regulations.

A coalition of environmental groups and two CCR recycling companies filed lawsuits against the EPA seeking a deadline for final rulemaking. In settlement of that litigation, the EPA has agreed to issue its final rulemaking on the Subtitle D option described above by December 19, 2014.

In July 2013, the U.S. House of Representatives passed House Bill H.R. 2218, the Coal Residuals and Reuse Management Act of 2013, which would preempt the EPA from issuing final CCR regulations and would set non-hazardous CCR standards under RCRA and authorize state permit programs. It remains uncertain whether similar legislation will be passed by the U.S. Senate. 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 and operational impact is expected to be material if CCRs are regulated as hazardous waste and significant if regulated as non-hazardous.

Trimble County Landfill (PPL, LKE, LG&E and KU)

In May 2011, LG&E submitted an application for a special waste landfill permit to handle coal combustion residuals generated at the Trimble County plant. After extensive review of the permit application in May 2013, the Kentucky Division of Waste Management denied the permit application on the grounds that the proposed facility would violate the Kentucky Cave Protection Act because it would eliminate an on-site karst feature considered to be a cave. After assessing additional options for managing coal combustion residuals, in January 2014, LG&E submitted to the Kentucky Division of Waste Management a landfill permit application for an alternate site adjacent to the plant. LG&E has also applied for other necessary regulatory approvals including a dredge and fill permit from the U.S. Army Corps of Engineers. PPL, LKE, LG&E and KU are unable to determine the potential impact of this matter until all permits are issued and any resulting legal challenges are concluded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(All Registrants except PPL Electric)

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 respond to notices of violations and implement assessment or abatement measures, where required or applicable. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the 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 provide financial assurance to the 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 the Sierra Club, the MEIC, and the National Wildlife Federation. 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. This matter was stayed in December 2012. In April 2014, Earthjustice filed a motion for leave to amend the petition for review and to lift the stay which was granted by the court in May 2014. PPL Montana and the MDEQ responded to the amended petition and filed partial motions to dismiss in July 2014, which were both recently denied by the court.

(All Registrants except PPL Electric)

Clean Water Act/316(b)

The EPA's final 316(b) rule for existing facilities, became effective on October 14, 2014, and regulates cooling water intake structures and their impact on aquatic organisms. The rule allows states considerable authority to interpret the rule. The rule requires all existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants already equipped with closed-cycle cooling, an acceptable option, would likely not incur additional costs. Once-through systems would likely require additional technology to comply with the rule. PPL, PPL Energy Supply, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs to be material.

Effluent Limitations Guidelines (ELGs) and Standards

In June 2013, the EPA published proposed regulations to revise discharge limitations for steam electric generation wastewater permits. The proposed limitations are based on the EPA review of available treatment technologies and their capacity for reducing pollutants and include new requirements for fly ash and bottom ash transport water and metal cleaning waste waters, as well as new limits for scrubber wastewater and landfill leachate. The EPA's proposed ELG regulations contain requirements that would affect the inspection and operation of CCR facilities, if finalized. The EPA has indicated that it will coordinate these regulations with the regulation of CCRs discussed above. The proposal contains alternative approaches, some of which could significantly impact PPL's coal-fired plants. The EPA has agreed to a new deadline for the final rule of September 30, 2015 which is contingent upon the EPA meeting its deadline of December 19, 2014 for issuing its final CCR regulations. At the present time, 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. Pending finalization of the ELGs, certain states (including Pennsylvania and Kentucky) and environmental groups are proposing more stringent technology-based limits in permit renewals. Depending on the final limits imposed, the costs of compliance could be significant and costs could be imposed ahead of federal timelines.

(All Registrants)

Waters of the United States (WOTUS)

On April 21, 2014, the EPA and the U.S. Army Corps of Engineers (Army Corps) published the proposed rule defining Waters of the United States (WOTUS) that could significantly expand the federal government's interpretation of what constitutes WOTUS subject to regulation under the Clean Water Act. If the definition is expanded as proposed by the EPA and the Army Corps, permits and other regulatory requirements may be imposed for many matters presently not covered (including vegetation management for transmission lines and activities affecting storm water conveyances and wetlands), the implications of which could be significant. The U.S. House and Senate are considering legislation to block these regulations.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic 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 or some

PCB-containing equipment. The EPA is planning to propose the revised regulations in 2015. 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.

(PPL and PPL Energy Supply)

A subsidiary of PPL Energy Supply has investigated alternatives to exclude fish from the discharge channel at its Brunner Island plant. In June 2012, a Consent Order and Agreement (COA) with the PADEP was signed, allowing the subsidiary to study a change in a cooling tower operational method that may keep fish from entering the channel. The COA required a retrofit of impingement control technology at the intakes to the cooling towers, at a cost that would have been significant. Based on the results of the first year of study, the PADEP has suggested closing the COA and writing a new COA to resolve the issue. PPL is in negotiations with the agency at this time. PPL and PPL Energy Supply cannot predict at this time the outcome of the proposed new COA and what impact, if any, it would have on their facilities, but the costs could be significant.

(PPL, LKE, LG&E and KU)

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. In September 2013, the court reversed the Cabinet order upholding the permit and remanded the permit to the agency for further proceedings. In October 2013, LG&E filed a notice of appeal with the Kentucky Court of Appeals. 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.

Superfund and Other Remediation (All Registrants)

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 cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

From time to time, PPL Energy Supply, PPL Electric, LG&E and KU undertake remedial action in response to notices of violations, 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 adverse impact on these Registrants' 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)

The Price-Anderson Act is a United States Federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. Effective September 10, 2013, the liability limit per incident is \$13.6 billion for such claims which is funded by insurance coverage from American Nuclear Insurers and an industry assessment program.

Under the industry assessment program, in the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act, as amended, PPL Susquehanna could be assessed up to \$255 million per incident, payable at \$38 million per year.

Additionally, PPL Susquehanna purchases property insurance programs from NEIL, an industry mutual insurance company of which PPL Susquehanna is a member. Effective April 1, 2014, facilities at the Susquehanna plant are insured against property damage losses up to \$2.0 billion. PPL Susquehanna also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, PPL Susquehanna could be assessed retrospective premiums in the event of the insurers' adverse loss experience. This maximum assessment is \$46 million.

Pennsylvania Coal Plants (PPL and PPL Energy Supply)

In the fourth quarter of 2013, management tested the Brunner Island and Montour plants for impairment and concluded neither was impaired as of December 31, 2013. There were no events or changes in circumstances that indicated a recoverability test was required to be performed in 2014. The carrying value of the Pennsylvania coal-fired generation assets was \$2.5 billion as of September 30, 2014 (\$1.3 billion for Brunner Island and \$1.2 billion for Montour).

Labor Union Agreements

(PPL, PPL Energy Supply and PPL Electric)

In May 2014, PPL's, PPL Energy Supply's and PPL Electric's bargaining agreement with its largest IBEW local expired. PPL, PPL Energy Supply and PPL Electric finalized a new three-year labor agreement with IBEW local 1600 in May 2014 and the agreement was ratified in early June 2014.

As part of efforts to reduce operations and maintenance expenses, the new agreement offered a one-time voluntary retirement window to certain bargaining unit employees. The benefits offered under this provision are consistent with the standard separation program benefits for bargaining unit employees. As a result, in the second quarter of 2014, estimated separation benefits of \$29 million were recorded (\$23 million for PPL Energy Supply and \$6 million for PPL Electric). During the three months ended September 30, 2014, based on final employee acceptances of the offer, PPL reduced the previously recorded estimated amounts by \$9 million (\$6 million for PPL Energy Supply and \$3

million for PPL Electric). As a result, for the nine months ended September 30, 2014, the following total separation benefits have been recorded:

	PPL	PPL Energy Supply	PPL Electric
Pension Benefits	\$ 13	\$ 11	\$ 2
Severance Compensation	7	6	1
Total Separation Benefits	\$ 20	\$ 17	\$ 3
Number of Employees	121	105	15

The separation benefits are included in "Other operation and maintenance" on the Statement of Income. The liability for pension benefits is included in "Accrued pension obligations" on the Balance Sheet at September 30, 2014. All of the severance compensation was paid in the third quarter of 2014. The remaining terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL, PPL Energy Supply or PPL Electric.

(LKE, LG&E and KU)

In August 2014, KU and the USWA ratified a three-year labor agreement through August 2017 containing 2.5% wage increases for each year. The agreement covers approximately 74 employees.

In November 2014, LG&E and the IBEW ratified a three-year labor agreement through November 2017 containing 2.5% wage increases for each year. The agreement covers approximately 700 employees.

Guarantees and Other Assurances

(All Registrants)

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 engage.

(PPL)

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

(All Registrants)

The table below details guarantees provided as of September 30, 2014. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. 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." The total recorded liability at September 30, 2014 and December 31, 2013, was \$25 million and \$26 million for PPL and \$19 million for both periods for LKE. 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, 2014	Expiration Date
PPL		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 12(b)	2017 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	125(c)	
PPL Energy Supply		
Letters of credit issued on behalf of affiliates	27(d)	2014 - 2015
Indemnifications for sales of assets	250(e)	2025
Guarantee of a portion of a divested unconsolidated entity's debt	22(f)	2018

PPL Electric		
Guarantee of inventory value	33(g)	2017
LKE		
Indemnification of lease termination and other divestitures	301(h)	2021 - 2023
LG&E and KU		
LG&E and KU guarantee of shortfall related to OVEC	(i)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. 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.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are 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 where the agreements provide for specific limits.

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 or 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.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2014, WPD has recorded an estimated discounted liability 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, and as a result, the exposure has been estimated.
- (d) 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.
- (e) Indemnifications are governed by the specific sales agreement and include breach of the representations, warranties and covenants, and liabilities for certain other matters. PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because 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 date noted is based on those cases in which the agreements provide for specific limits.
- (f) Relates to a guarantee of one-third of the divested entity's debt. The purchaser provided a cross-indemnity, secured by a lien on the purchaser's stock of the divested entity. The exposure noted reflects principal only.
- (g) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (h) 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 January 2013, LKE's indemnitee commenced a proceeding in the Kentucky Court of Appeals appealing the December 2012 order of the Henderson Circuit Court, confirming the arbitration award. On May 30, 2014, the Court of Appeals issued an opinion affirming the lower court decision, and subsequently denied a Petition for Rehearing. LKE's indemnitee filed a Motion for Discretionary Review with the Kentucky Supreme Court on October 2, 2014. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including potential for additional legal challenges regarding 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. LKE cannot predict the ultimate outcomes of such indemnification circumstances, but does not currently expect such outcomes to result in significant losses above the amounts recorded.
- (i)

Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts currently included within a demand charge designed and currently expected to cover these costs over the term of the contract. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 15 in PPL's, LKE's, LG&E's and KU's 2013 Form 10-K for additional information on the OVEC power purchase contract.

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 provides maximum aggregate coverage of \$225 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. The sales and purchases between PPL EnergyPlus and PPL Electric are included in the Statements of Income as "Unregulated wholesale energy to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Default Service 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: (a) the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered; and (b) this market price exposure exceeds a contractual credit limit. During the second quarter of 2014, PPL Energy Supply experienced a downgrade in its corporate credit ratings to below investment grade. As a result of the downgrade of PPL Energy Supply, as guarantor, PPL EnergyPlus no longer has an

established credit limit. At September 30, 2014, PPL EnergyPlus was not required to post collateral. 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, 2014, PPL Energy Supply had a net credit exposure of \$27 million from PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Support Costs (All Registrants except PPL)

Both PPL Services and LKS provide the respective PPL and LKE subsidiaries with administrative, management and support services. Where applicable, the costs of these services are charged to the respective subsidiaries as direct support costs. General costs that cannot be directly attributed to a specific subsidiary are allocated and charged to the respective subsidiaries as indirect support costs. PPL Services uses a three-factor methodology that includes the subsidiaries' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services and LKS charged the following amounts for the periods ended September 30, and believe these amounts are reasonable, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL Energy Supply from PPL Services	\$ 49	\$ 52	\$ 161	\$ 161
PPL Electric from PPL Services	34	37	113	109
LKE from PPL Services	3	3	11	11
LG&E from LKS	49	53	154	159
KU from LKS	55	36	167	146

LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and LKE and KU are reimbursed through LKS.

Intercompany Borrowings (PPL Electric and LKE)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At September 30, 2014, there was no balance outstanding. At December 31, 2013, \$150 million was outstanding and was reflected in "Notes receivable from affiliate" on the Balance Sheet. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at December 31, 2013, was 1.92%. Interest earned on these revolving facilities was not significant for the three and nine months ended September 30, 2014 and 2013.

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rate on borrowings is equal to one-month LIBOR plus a spread. At September 30, 2014, \$22 million was outstanding and was reflected in "Notes payable with

affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at September 30, 2014 was 1.66%. There was no balance outstanding at December 31, 2013. Interest on the revolving line of credit was not significant for the three and nine months ended September 30, 2014 and 2013.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. The interest on the loan is based on the PPL affiliate's credit rating and is currently equal to one-month LIBOR plus a spread. There was no balance outstanding at September 30, 2014. At December 31, 2013, \$70 million was outstanding and was reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rate on the outstanding borrowing at December 31, 2013 was 2.17%. Interest income on this note was not significant for the three and nine months ended September 30, 2014 and 2013.

Intercompany Derivatives (LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 14 for additional information on intercompany derivatives.

Other (All Registrants except PPL and LKE)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(All Registrants)

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

	Three Months		Nine Months	
	2014	2013	2014	2013
PPL				
Other Income				
Earnings on securities in NDT funds	\$ 11	\$ 4	\$ 23	\$ 14
Interest income		1	4	2
AFUDC - equity component	3	3	8	8
Miscellaneous	4		8	10
Total Other Income	18	8	43	34
Other Expense				
Economic foreign currency exchange contracts (Note 14)	(134)	117	(38)	(6)
Charitable contributions	3	5	12	13
Transaction costs related to spinoff of PPL Energy Supply (Note 8)	2		18	
Miscellaneous	3	3	13	9
Total Other Expense	(126)	125	5	16
Other Income (Expense) - net	\$ 144	\$ (117)	\$ 38	\$ 18

"Other Income (Expense) - net" for the three and nine months ended September 30, 2014 and 2013 for PPL Energy Supply was primarily earnings on securities in NDT funds. The components of "Other Income (Expense) - net" for the three and nine months ended September 30, 2014 and 2013 for PPL Electric, LKE, LG&E and KU were not significant.

13. Fair Value Measurements and Credit Concentration

(All Registrants)

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, 2014

and 2013, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2013 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 1,188	\$ 1,188			\$ 1,102	\$ 1,102		
Restricted cash and cash equivalents (a)	324	324			134	134		
Price risk management assets:								
Energy commodities	1,041	4	\$ 945	\$ 92	1,188	3	\$ 1,123	\$ 62
Interest rate swaps	6		6		91		91	
Foreign currency contracts	51		51					
Total price risk management assets	1,098	4	1,002	92	1,279	3	1,214	62

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	September 30, 2014				December 31, 2013			Level 3
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	
NDT funds:								
Cash and cash equivalents	17	17			14	14		
Equity securities								
U.S. large-cap	582	432	150		547	409	138	
U.S. mid/small-cap	83	35	48		81	33	48	
Debt securities								
U.S. Treasury	98	98			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	77		77		77		77	
Investment-grade corporate	40		40		38		38	
Other	6		6		5		5	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	911	582	329		864	550	314	
Auction rate securities (b)	13			13	19			19
Total assets	\$ 3,534	\$ 2,098	\$ 1,331	\$ 105	\$ 3,398	\$ 1,789	\$ 1,528	\$ 81
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38
Interest rate swaps	64		64		36		36	
Foreign currency contracts	26		26		106		106	
Cross-currency swaps	47		47		32		32	
Total price risk management liabilities	\$ 1,274	\$ 2	\$ 1,200	\$ 72	\$ 1,244	\$ 4	\$ 1,202	\$ 38
PPL Energy Supply								
Assets								
Cash and cash equivalents	\$ 194	\$ 194			\$ 239	\$ 239		
Restricted cash and cash equivalents (a)	284	284			85	85		
Price risk management assets:								
Energy commodities	1,041	4	\$ 945	\$ 92	1,188	3	\$ 1,123	\$ 62
Total price risk management assets	1,041	4	945	92	1,188	3	1,123	62
NDT funds:								
Cash and cash equivalents	17	17			14	14		
Equity securities								
U.S. large-cap	582	432	150		547	409	138	
U.S. mid/small-cap	83	35	48		81	33	48	
Debt securities								
U.S. Treasury	98	98			95	95		
U.S. government sponsored agency	6		6		6		6	
Municipality	77		77		77		77	
Investment-grade corporate	40		40		38		38	

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Investment-grade corporate									
Other	6		6		5		5		
Receivables (payables), net	2		2		1	(1)	2		
Total NDT funds	911	582	329		864	550	314		
Auction rate securities (b)	10				10	16			16
Total assets	\$ 2,440	\$ 1,064	\$ 1,274	\$ 102	\$ 2,392	\$ 877	\$ 1,437	\$ 78	

Liabilities

Price risk management liabilities:

Energy commodities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38	
Total price risk management liabilities	\$ 1,137	\$ 2	\$ 1,063	\$ 72	\$ 1,070	\$ 4	\$ 1,028	\$ 38	

PPL Electric

Assets

Cash and cash equivalents	\$ 111	\$ 111		\$ 25	\$ 25				
Restricted cash and cash equivalents (c)	3	3		12	12				
Total assets	\$ 114	\$ 114		\$ 37	\$ 37				

LKE

Assets

Cash and cash equivalents		\$ 47	\$ 47		\$ 35	\$ 35			
Price risk management assets:									
Interest rate swaps		6	\$ 6						
Cash collateral posted to counterparties (d)		20	20		22	22			
Total assets		\$ 73	\$ 67	\$ 6	\$ 57	\$ 57			

Liabilities

Price risk management liabilities:

Interest rate swaps		\$ 46	\$ 46		\$ 36	\$ 36			
Total price risk management liabilities		\$ 46	\$ 46		\$ 36	\$ 36			

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	September 30, 2014				December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	\$ 25	\$ 25			\$ 8	\$ 8		
Price risk management assets:								
Interest rate swaps	3		\$ 3					
Cash collateral posted to counterparties (d)	20	20			22	22		
Total assets	\$ 48	\$ 45	\$ 3		\$ 30	\$ 30		

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 44		\$ 44		\$ 36		\$ 36	
Total price risk management liabilities	\$ 44		\$ 44		\$ 36		\$ 36	

KU								
Assets								
Cash and cash equivalents	\$ 22	\$ 22			\$ 21	\$ 21		
Price risk management assets:								
Interest rate swaps	3		\$ 3					
Total assets	\$ 25	\$ 22	\$ 3		\$ 21	\$ 21		

Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 2		\$ 2					
Total price risk management liabilities	\$ 2		\$ 2					

- (a) Current portion is included in "Restricted cash and cash equivalents" and 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 long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (d) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2014 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	\$ 74	\$ 16		\$ 90	\$ 24	\$ 19		\$ 43

Total realized/unrealized gains (losses)									
Included in earnings	(84)		(84)	(147)					(147)
Included in OCI (a)							\$ (1)		(1)
Purchases				(6)					(6)
Sales	67	(3)	64	67	(6)				61
Settlements	(37)		(37)	82					82
Transfers out of Level 3								1	1
Balance at end of period	\$ 20	\$ 13	\$ 33	\$ 20	\$ 13	\$ 1			\$ 33
PPL Energy Supply									
Balance at beginning of period	\$ 74	\$ 13	\$ 87	\$ 24	\$ 16				\$ 40
Total realized/unrealized gains (losses)									
Included in earnings	(84)		(84)	(147)					(147)
Purchases				(6)					(6)
Sales	67	(3)	64	67	(6)				61
Settlements	(37)		(37)	82					82
Balance at end of period	\$ 20	\$ 10	\$ 30	\$ 20	\$ 10				\$ 30

(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, 2013 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	\$ 40	\$ 19	\$ 3	\$ 62	\$ 22	\$ 16	\$ 1	\$ 39
Total realized/unrealized gains (losses)								
Included in earnings	18			18	23			23
Included in OCI (a)			(2)	(2)			1	1
Sales					(2)			(2)
Settlements	(2)			(2)	1			1
Transfers into Level 3	(7)			(7)	1	3	3	7
Transfers out of Level 3	(2)		(1)	(3)	2		(5)	(3)
Balance at end of period	\$ 47	\$ 19	\$	\$ 66	\$ 47	\$ 19	\$	\$ 66
PPL Energy Supply								
Balance at beginning of period	\$ 40	\$ 16		\$ 56	\$ 22	\$ 13		\$ 35
Total realized/unrealized gains (losses)								
Included in earnings	18			18	23			23
Sales					(2)			(2)
Settlements	(2)			(2)	1			1
Transfers into Level 3	(7)			(7)	1	3		4
Transfers out of Level 3	(2)			(2)	2			2
Balance at end of period	\$ 47	\$ 16		\$ 63	\$ 47	\$ 16		\$ 63

(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.

The significant unobservable inputs used in and quantitative information about the fair value measurement of assets and liabilities classified as Level 3 are as follows:

September 30, 2014

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 9	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (36%)
Power sales contracts (c)	(31)	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (68%)
FTR purchase contracts (d)	4	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	38	Discounted cash flow	Proprietary model used to calculate forward prices	24% - 52% (45%)
Auction rate securities (f)	13	Discounted cash flow	Modeled from SIFMA Index	53% - 74% (64%)
PPL Energy Supply				
Energy commodities				
Natural gas contracts (b)	\$ 9	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (36%)
Power sales contracts (c)	(31)	Discounted cash flow	Proprietary model used to calculate forward prices	17% - 100% (68%)
FTR purchase contracts (d)	4	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Heat rate options (e)	38	Discounted cash flow	Proprietary model used to calculate forward prices	24% - 52% (45%)
Auction rate securities (f)	10	Discounted cash flow	Modeled from SIFMA Index	57% - 74% (66%)

December 31, 2013

	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Natural gas contracts (b)	\$ 36	Discounted cash flow	Proprietary model used to calculate forward prices	10% - 100% (86%)
Power sales contracts (c)	(12)	Discounted cash flow	Proprietary model used to calculate forward prices	100% - 100% (100%)
Auction rate securities (f)	19	Discounted cash flow	Modeled from SIFMA Index	10% - 80% (63%)
PPL Energy Supply				