PPL Corp
Form 10-Q
November 07, 2014

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

FORM 10-Q

| | |
|---|---|
| [X] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 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<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-2758192 |
| 1-32944 | PPL Energy Supply, LLC<br>(Exact name of Registrant as specified in its charter)<br>(Delaware)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-3074920 |
| 1-905 | PPL Electric Utilities Corporation<br>(Exact name of Registrant as specified in its charter)<br>(Pennsylvania)<br>Two North Ninth Street<br>Allentown, PA 18101-1179<br>(610) 774-5151 | 23-0959590 |
| 333-173665 | LG&E and KU Energy LLC<br>(Exact name of Registrant as specified in its charter)<br>(Kentucky)<br>220 West Main Street<br>Louisville, KY 40202-1377<br>(502) 627-2000 | 20-0523163 |
| 1-2893 | Louisville Gas and Electric Company | 61-0264150 |

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| PPL Corporation | Common stock, $0.01 par value, 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

Table of Contents

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.

PART II.  OTHER INFORMATION

(THIS PAGE LEFT BLANK INTENTIONALLY.)

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.

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.

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.

LTIIP - 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.

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.

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.

(THIS PAGE LEFT BLANK INTENTIONALLY.)

## 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;

- 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.

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, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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 |

| | | | | |
|---|---|---|---|---|
| Net Income Attributable to PPL Shareowners | $ 497 | $ 410 | $ 1,042 | $ 1,228 |
| | | | | |
| Amounts Attributable to PPL Shareowners: | | | | |
| Income from Continuing Operations After Income Taxes | $ 490 | $ 403 | $ 1,032 | $ 1,198 |
| Income (Loss) from Discontinued Operations (net of income taxes) | 7 | 7 | 10 | 30 |
| Net Income | $ 497 | $ 410 | $ 1,042 | $ 1,228 |
| | | | | |
| 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 |
| Diluted | $ 0.73 | $ 0.61 | $ 1.56 | $ 1.86 |
| Net Income Available to PPL Common Shareowners: | | | | |
| Basic | $ 0.74 | $ 0.65 | $ 1.60 | $ 2.03 |
| Diluted | $ 0.74 | $ 0.62 | $ 1.57 | $ 1.90 |
| | | | | |
| Dividends Declared Per Share of Common Stock | $ 0.3725 | $ 0.3675 | $ 1.1175 | $ 1.1025 |
| | | | | |
| Weighted-Average Shares of Common Stock Outstanding (in thousands) | | | | |
| Basic | 664,432 | 631,046 | 649,561 | 601,275 |
| Diluted | 666,402 | 664,343 | 665,501 | 662,094 |

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, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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.

4

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

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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 | | |

| | | | | |
|---|---|---|---|---|
| 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 |

| | | | | |
|---|---|---|---|---|
| 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.

6

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.

7

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

| | PPL Shareowners | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock shares outstanding (a) | Common stock | Additional paid-in capital | Earnings reinvested | Accumulated other comprehensive loss | Non-controlling interests | Total |
| June 30, 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 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 shareowners' 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, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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 |

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.

(THIS PAGE LEFT BLANK INTENTIONALLY.)

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

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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 | Nine Months Ended September 30, 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.

(THIS PAGE LEFT BLANK INTENTIONALLY.)

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

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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.

(THIS PAGE LEFT BLANK INTENTIONALLY.)

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.

(THIS PAGE LEFT BLANK INTENTIONALLY.)

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.

37

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.

38

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:

| | Three Months 2014 | Three Months 2013 | Nine Months 2014 | Nine Months 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, 2014 | December 31, 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 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 |

41

| | 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 |

43

(PPL Electric)

| | Three Months 2014 | Three Months 2013 | Nine Months 2014 | Nine Months 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 2014 | Three Months 2013 | Nine Months 2014 | Nine Months 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 2014 | Three Months 2013 | Nine Months 2014 | Nine Months 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)

| | 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 |

| | 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 | $ 2 | $ 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 LTIIP as a prerequisite to filing for recovery through the DSIC. The LTIIP 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 LTIIP 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:

| | | September 30, 2014 | | | | December 31, 2013 | |
|---|---|---|---|---|---|---|---|
| | Expiration Date | Capacity | Borrowed | Letters of Credit Issued and Commercial Paper Issued | Unused Capacity | Borrowed | Letters of Credit Issued and Commercial Paper Issued |
| 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 | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 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:

| | September 30, 2014 | | | | December 31, 2013 | |
|---|---|---|---|---|---|---|
| | Weighted - Average Interest Rate | 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

| | 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).

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.

65

---

(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 2014 | Three Months 2013 | Nine Months 2014 | Nine Months 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 |

71

| | September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| 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 | |
| | 40 | | 40 | | 38 | | 38 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | | | | | | | |