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JUL 29 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
APPLICATION OF LOUISVILLE GAS	)	**CASE NO: 2008-00252**
AND ELECTRIC COMPANY FOR AN	)	
ADJUSTMENT OF ITS ELECTRIC	)	
AND GAS BASE RATES	)	

VOLUME 3 OF 5

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

Filed: July 29, 2008

Louisville Gas and Electric Company
Case No. 2008-00252
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1	Statutory Notice
	Application
	Financial Exhibit pursuant to 807 KAR 5:001 Section 6
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	Response to Filing Requirements listed in 807 KAR 5:001 Section 10(1)(a)1 through 807 KAR 5:001 Section 10(6)(k)
2	Response to Filing Requirements listed in 807 KAR 5:001 Section 10(6)(l) through 807 KAR 5:001 Section 10(6)(q)
3	Response to Filing Requirements listed in 807 KAR 5:001 Section 10(6)(r) through 807 KAR 5:001 Section 10(7)(e)
4	Direct Testimony and Exhibits
5	Direct Testimony and Exhibits

Louisville Gas and Electric Company

Case No. 2008-00252
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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
1	807 KAR 5:001 Section 10(1)(a)1	*A statement of the reason the adjustment is required.*	1	Lonnie E. Bellar
2	807 KAR 5:001 Section 10(1)(a)2	*A statement that the utility's annual reports, including the annual report for the most recent calendar year, are on file with the Commission in accordance with 807 KAR 5:006, Section 3(1).*	1	Lonnie E. Bellar
3	807 KAR 5:001 Section 10(1)(a)3	*If the utility is incorporated, a certified copy of the utility's articles of incorporation and all amendments thereto or all out-of-state documents of similar import. If the utility's articles of incorporation and amendments have already been filed with the commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding.*	1	Lonnie E. Bellar
4	807 KAR 5:001 Section 10(1)(a)4	*If the utility is a limited partnership, a certified copy of the limited partnership agreement and all amendments thereto or all out-of-state documents of similar import. If the utility's limited partnership agreement and amendments have already been filed with the commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding.*	1	Lonnie E. Bellar
5	807 KAR 5:001 Section 10(1)(a)5	*If the utility is incorporated or a is a limited partnership, a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed.*	1	Lonnie E. Bellar
6	807 KAR 5:001 Section 10(1)(a)6	*A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.*	1	Lonnie E. Bellar
7	807 KAR 5:001 Section 10(1)(a)7	*The proposed tariff in a form which complies with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed.*	1	Lonnie E. Bellar
8	807 KAR 5:001 Section 10(1)(a)8	*The utility's proposed tariff changes, identified in compliance with 807 KAR 5:011, shown either by:* *(a) Providing the present and proposed tariffs in comparative form on the same sheet side by side; or,* *(b) Providing a copy of the present tariff indicating proposed additions by italicized inserts or underscoring and striking over proposed deletions.*	1	Lonnie E. Bellar
9	807 KAR 5:001 Section 10(1)(a)9	*A statement that customer notice has been given in compliance with subsections (3) and (4) of this section with a copy of the notice.*	1	Lonnie E. Bellar
10	807 KAR 5:001 Section 10(2)	*Notice of Intent. Utilities with gross annual revenues greater than $1,000,000 shall file with the commission a written notice of intent to file a rate application at least four (4) weeks prior to filing their application. The notice of intent shall state whether the rate application shall be supported by a historical test period or a fully forecasted test period. This notice shall be served upon the Attorney General, Utility Intervention and Rate Division.*	1	Lonnie E. Bellar

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
11	807 KAR 5:001 Section 10(3)	*Form of notice to customers. Every utility filing an application pursuant to this section shall notify all affected customers in the manner prescribed herein. The notice shall include the following information: (a) The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rate change will apply; (b) The present rates and the proposed rates for each customer class to which the proposed rates would apply; (c) Electric, gas, water and sewer utilities shall include the effect upon the average bill for each customer class to which the proposed rate change will apply; (d) Local exchange companies shall include the effect upon the average bill for each customer class for the proposed rate change in basic local service; (e) A statement that the rates contained in this notice are the rates proposed by (name of utility); however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (f) A statement that any corporation, association, or person with a substantial interest in the m*	1	Lonnie E. Bellar
12	807 KAR 5:001 Section 10(4)(a)	*Manner of notification. Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185.*	1	Lonnie E. Bellar
13	807 KAR 5:001 Section 10(4)(b)	*Manner of notification. Applicants with twenty (20) or fewer customers affected by the proposed general rate adjustment shall mail the required typewritten notice to each customer no later than the date the application is filed with the commission.*	1	Lonnie E. Bellar
14	807 KAR 5:001 Section 10(4)(c)	*Manner of notification. Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a trade publication or newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the commission.*	1	Lonnie E. Bellar
15	807 KAR 5:001 Section 10(4)(d)	*Manner of notification. If the notice is published, an affidavit from the publisher verifying the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the commission no later than forty-five (45) days of the filed date of the application.*	1	Lonnie E. Bellar
16	807 KAR 5:001 Section 10(4)(e)	*Manner of notification. If the notice is mailed, a written statement signed by the utility's chief officer in charge of Kentucky operations verifying the notice was mailed shall be filed with the commission no later than thirty (30) days of the filed date of the application.*	1	Lonnie E. Bellar
17	807 KAR 5:001 Section 10(4)(f)	*Manner of notification. All utilities, in addition to the above notification, shall post a sample copy of the required notification at their place of business no later than the date on which the application is filed which shall remain posted until the commission has finally determined the utility's rates.*	1	Lonnie E. Bellar

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
18	807 KAR 5:001 Section 10(4)(g)	*Manner of notification. Compliance with this subsection shall constitute compliance with 807 KAR 5:051, Section 2.*	1	Lonnie E. Bellar
19	807 KAR 5:001 Section 10(5)	*Notice of hearing scheduled by the commission upon application by a utility for a general adjustment in rates shall be advertised by the utility by newspaper publication in the areas that will be affected in compliance with KRS 424.300*	1	Lonnie E. Bellar
20	807 KAR 5:001 Section 10(6)(a)	*A complete description and quantified explanation for all proposed adjustments, with proper support for any proposed changes in price or activity levels, and any other factors which may affect the adjustment.*	1	S. Bradford Rives
21	807 KAR 5:001 Section 10(6)(b)	*If the utility has gross annual revenues greater than $1,000,000, the prepared testimony of each witness the utility proposes to use to support its application.*	1	Lonnie E. Bellar
22	807 KAR 5:001 Section 10(6)(c)	*If the utility has gross annual revenues less than $1,000,000, the prepared testimony of each witness the utility proposes to use to support its application or a statement that the utility does not plan to submit any prepared testimony.*	1	S. Bradford Rives
23	807 KAR 5:001 Section 10(6)(d)	*A statement estimating the effect that the new rates will have upon the revenues of the utility including, at minimum, the total amount of revenues resulting from the increase or decrease and the percentage of the increase or decrease.*	1	Robert M. Conroy
24	807 KAR 5:001 Section 10(6)(e)	*If the utility provides electric, gas, water, or sewer service the effect upon the average bill for each customer classification to which the proposed rate change will apply.*	1	Robert M. Conroy
25	807 KAR 5:001 Section 10(6)(f)	*If the utility is a local exchange company, the effect upon the average bill for each customer class for the proposed rate change in basic local service.*	1	Lonnie E. Bellar
26	807 KAR 5:001 Section 10(6)(g)	*An analysis of customers' bills in such detail that revenues from the present and proposed rates can be readily determined for each customer class.*	1	Robert M. Conroy
27	807 KAR 5:001 Section 10(6)(h)	*A summary of the utility's determination of its revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.*	1	S. Bradford Rives
28	807 KAR 5:001 Section 10(6)(i)	*A reconciliation of the rate base and capital used to determine its revenue requirement.*	1	S. Bradford Rives
29	807 KAR 5:001 Section 10(6)(j)	*A current chart of accounts if more detailed that the Uniform System of Accounts prescribed by the commission.*	1	Shannon L. Charnas
30	807 KAR 5:001 Section 10(6)(k)	*The independent auditor's annual opinion report, with any written communication from the independent auditor to the utility which indicates the existence of a material weakness in the utility's internal controls.*	1	S. Bradford Rives
31	807 KAR 5:001 Section 10(6)(l)	*The most recent Federal Energy Regulatory Commission or Federal Communication Commission audit reports.*	2	Valerie L. Scott
32	807 KAR 5:001 Section 10(6)(m)	*The most recent Federal Energy Regulatory Commission Form 1 (electric), Federal Energy Regulatory Commission Form 2 (gas), or Automated Reporting Management information System Report (telephone) and Public Service Commission Form T (telephone);*	2	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
33	807 KAR 5:001 Section 10(6)(n)	*A summary of the utility's latest depreciation study with schedules by major plant accounts, except that telecommunications utilities that have adopted the commission's average depreciation rates shall provide a schedule that identifies the current and test period depreciation rates used by major plant accounts. If the required information has been filed in another commission case a reference to that case's number and style will be sufficient.*	2	Shannon L. Charnas & John J. Spanos
34	807 KAR 5:001 Section 10(6)(o)	*A list of all commercially available or in-house developed computer software, programs, and models used in the development of the schedules and work papers associated with the filing of the utility's application. This list shall include each software, program, or model; what the software, program, or model was used for; identify the supplier of each software, program, or model; a brief description of the software, program, or model; the specifications for the computer hardware and the operating system required to run the program.*	2	Valerie L. Scott
35	807 KAR 5:001 Section 10(6)(p)	*Prospectuses of the most recent stock or bond offerings.*	2	S. Bradford Rives
36	807 KAR 5:001 Section 10(6)(q)	*Annual report to shareholders, or members, and statistical supplements covering the two (2) most recent years from the utility's application filing date.*	2	S. Bradford Rives
37	807 KAR 5:001 Section 10(6)(r)	*The monthly management reports providing financial results of operations for the twelve (12) months in the test period.*	3	Valerie L. Scott
38	807 KAR 5:001 Section 10(6)(s)	*Securities and Exchange Commission's annual report for the most recent two (2) years, Form 10-Ks and any Form 8-Ks issued within the past two (2) years, and Form 10-Qs issued during the past six (6) quarters updated as current information becomes available.*	3	S. Bradford Rives
39	807 KAR 5:001 Section 10(6)(t)	*If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:* *1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;* *2. An explanation of how the allocator for the test period was determined; and* *3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;*	3	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
40	807 KAR 5:001 Section 10(6)(u)	*If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.*	3	W. Steven Seelye
41	807 KAR 5:001 Section 10(6)(v)	*Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file: 1. A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and 2. Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access: a. Based on current and reliable data from a single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.*	3	Lonnie E. Bellar
42	807 KAR 5:001 Section 10(7)(a)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;*	3	Valerie L. Scott
43	807 KAR 5:001 Section 10(7)(b)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.*	3	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
44	807 KAR 5:001 Section 10(7)(c)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(c) For each proposed pro forma adjustment reflecting plant additions provide the following information:* *1. The starting date of the construction of each major component of plant;* *2. The proposed in-service date;* *3. The total estimated cost of construction at completion;* *4. The amount contained in construction work in progress at the end of the test period;* *5. A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;* *6. The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;* *7. An explanation of any differences in the amounts contained in the capital construction budg* *8. The impact on depreciation expense of all proposed pro forma adjustments for plant additio*	3	Valerie L. Scott
45	807 KAR 5:001 Section 10(7)(d)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(d) The operating budget for each period encompassing the pro forma adjustments.*	3	Valerie L. Scott
46	807 KAR 5:001 Section 10(7)(e)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.*	3	W.Steven Seelye

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

Description of Filing Requirement:

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

Response:

See attached.

LG&E Monthly Report to KPSC – April 30, 2008

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

April 30, 2008

Prepared by Regulatory Accounting and Reporting

Louisville Gas and Electric Company
Comparative Statement of Income
April 30, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	64,331,457.53	66,406,296.13	(2,074,838.60)	(3.12)
Gas Operating Revenues	24,590,721.69	23,111,067.98	1,479,653.71	6.40
Total Operating Revenues	88,922,179.22	89,517,364.11	(595,184.89)	(0.66)
Fuel for Electric Generation	21,704,759.18	24,720,211.06	(3,015,451.88)	(12.20)
Power Purchased	6,032,790.30	4,365,687.05	1,667,103.25	38.19
Gas Supply Expenses	13,801,522.90	16,703,417.43	(2,901,894.53)	(17.37)
Other Operation Expenses	14,907,064.84	12,966,555.19	1,940,509.65	14.97
Maintenance	8,821,592.39	6,123,373.69	2,698,218.70	44.06
Depreciation	9,956,184.21	9,839,725.59	116,458.62	1.18
Amortization Expense	456,402.40	528,106.86	(71,704.46)	(13.58)
Regulatory Credits	(172,149.08)	(163,026.95)	(9,122.13)	5.60
Taxes				
Federal Income	2,734,757.11	2,923,763.40	(189,006.29)	(6.46)
State Income	520,906.12	664,280.76	(143,374.64)	(21.58)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	2,044,651.13	1,836,084.48	208,566.65	11.36
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(322,577.00)	(329,242.00)	6,665.00	(2.02)
Loss (Gain) from Disposition of Allowances	(44.96)	(63.55)	18.59	(29.25)
Accretion Expense	157,463.21	148,341.13	9,122.08	6.15
Total Operating Expenses	80,643,322.75	80,327,214.14	316,108.61	0.39
Net Operating Income	8,278,856.47	9,190,149.97	(911,293.50)	(9.92)
Other Income Less Deductions	(58,407.26)	19,274.66	(77,681.92)	(403.03)
Income Before Interest Charges	8,220,449.21	9,209,424.63	(988,975.42)	(10.74)
Interest on Long-term Debt	4,301,523.08	3,593,183.89	708,339.19	19.71
Amortization of Debt Expense - Net	120,887.47	118,667.33	2,220.14	1.87
Other Interest Expenses	408,895.92	122,010.53	286,885.39	235.13
Total Interest Charges	4,831,306.47	3,833,861.75	997,444.72	26.02
Net Income	3,389,142.74	5,375,562.88	(1,986,420.14)	(36.95)
Preferred Dividend Requirements	-	(435,145.91)	435,145.91	(100.00)
Earnings Available for Common	3,389,142.74	5,810,708.79	(2,421,566.05)	(41.67)

Louisville Gas and Electric Company
Comparative Statement of Income
April 30, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	288,727,399.82	288,798,451.38	(71,051.56)	(0.02)
Gas Operating Revenues	215,326,542.24	175,617,159.20	39,709,383.04	22.61
Total Operating Revenues	504,053,942.06	464,415,610.58	39,638,331.48	8.54
Fuel for Electric Generation	101,179,512.47	100,937,004.76	242,507.71	0.24
Power Purchased	29,915,573.67	30,450,429.57	(534,855.90)	(1.76)
Gas Supply Expenses	166,311,107.22	131,193,306.11	35,117,801.11	26.77
Other Operation Expenses	63,361,343.76	59,076,219.86	4,285,123.90	7.25
Maintenance	35,481,694.40	24,009,079.15	11,472,615.25	47.78
Depreciation	40,067,662.57	39,194,325.27	873,337.30	2.23
Amortization Expense	1,762,468.67	2,102,813.96	(340,345.29)	(16.19)
Regulatory Credits	(688,593.95)	(636,528.44)	(52,065.51)	8.18
Taxes				
Federal Income	12,442,024.51	14,091,266.53	(1,649,242.02)	(11.70)
State Income	1,988,496.30	2,824,680.40	(836,184.10)	(29.60)
Deferred Federal Income - Net	(333,729.55)	1,046,568.59	(1,380,298.14)	(131.89)
Deferred State Income - Net	46,924.12	289,123.48	(242,199.36)	(83.77)
Property and Other	8,340,347.13	7,779,218.54	561,128.59	7.21
Investment Tax Credit	1,300,000.00	2,600,000.00	(1,300,000.00)	(50.00)
Amortization of Investment Tax Credit	(1,303,990.16)	(1,323,279.40)	19,289.24	(1.46)
Loss (Gain) from Disposition of Allowances	(456,254.88)	(553,092.69)	96,837.81	(17.51)
Accretion Expense	629,852.84	594,188.32	35,664.52	6.00
Total Operating Expenses	460,044,439.12	413,675,324.01	46,369,115.11	11.21
Net Operating Income	44,009,502.94	50,740,286.57	(6,730,783.63)	(13.27)
Other Income Less Deductions	(434,657.80)	(1,302,702.39)	868,044.59	(66.63)
Income Before Interest Charges	43,574,845.14	49,437,584.18	(5,862,739.04)	(11.86)
Interest on Long-term Debt	17,105,275.16	12,247,038.97	4,858,236.19	39.67
Amortization of Debt Expense - Net	483,549.78	476,237.51	7,312.27	1.54
Other Interest Expenses	1,283,827.39	(108,680.11)	1,392,507.50	(1,281.29)
Total Interest Charges	18,872,652.33	12,614,596.37	6,258,055.96	49.61
Net Income	24,702,192.81	36,822,987.81	(12,120,795.00)	(32.92)
Preferred Dividend Requirements	-	936,636.24	(936,636.24)	(100.00)
Earnings Available for Common	24,702,192.81	35,886,351.57	(11,184,158.76)	(31.17)

Louisville Gas and Electric Company
Comparative Statement of Income
April 30, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	932,384,515.71	957,747,167.66	(25,362,651.95)	(2.65)
Gas Operating Revenues	392,391,112.07	345,206,710.02	47,184,402.05	13.67
Total Operating Revenues	1,324,775,627.78	1,302,953,877.68	21,821,750.10	1.67
Fuel for Electric Generation	317,506,068.88	309,598,271.83	7,907,797.05	2.55
Power Purchased	81,802,192.21	108,943,076.39	(27,140,884.18)	(24.91)
Gas Supply Expenses	288,710,020.24	244,367,455.74	44,342,564.50	18.15
Other Operation Expenses	177,437,780.09	186,832,019.54	(9,394,239.45)	(5.03)
Maintenance	94,014,608.10	79,115,221.23	14,899,386.87	18.83
Depreciation	120,446,401.97	118,231,874.53	2,214,527.44	1.87
Amortization Expense	5,859,616.94	6,111,182.91	(251,565.97)	(4.12)
Regulatory Credits	(1,992,809.55)	(2,288,518.69)	295,709.14	(12.92)
Taxes				
Federal Income	32,975,342.97	49,020,342.38	(16,044,999.41)	(32.73)
State Income	6,784,324.43	11,054,365.29	(4,270,040.86)	(38.63)
Deferred Federal Income - Net	8,095,572.79	4,854,721.98	3,240,850.81	66.76
Deferred State Income - Net	1,257,954.10	(1,043,008.48)	2,300,962.58	(220.61)
Property and Other	22,457,792.07	22,219,083.09	238,708.98	1.07
Investment Tax Credit	7,679,626.00	5,600,000.00	2,079,626.00	37.14
Amortization of Investment Tax Credit	(3,931,611.70)	(3,993,008.41)	61,396.71	(1.54)
Loss (Gain) from Disposition of Allowances	(456,254.88)	(553,092.69)	96,837.81	(17.51)
Accretion Expense	1,816,581.88	2,101,805.49	(285,223.61)	(13.57)
Total Operating Expenses	1,160,463,206.54	1,140,171,792.13	20,291,414.41	1.78
Net Operating Income	164,312,421.24	162,782,085.55	1,530,335.69	0.94
Other Income Less Deductions	63,212.02	(1,692,245.15)	1,755,457.17	(103.74)
Income Before Interest Charges	164,375,633.26	161,089,840.40	3,285,792.86	2.04
Interest on Long-term Debt	49,277,780.58	35,411,165.11	13,866,615.47	39.16
Amortization of Debt Expense - Net	1,443,785.84	1,429,757.75	14,028.09	0.98
Other Interest Expenses	5,391,496.62	2,755,825.19	2,635,671.43	95.64
Total Interest Charges	56,113,063.04	39,596,748.05	16,516,314.99	41.71
Net Income	108,262,570.22	121,493,092.35	(13,230,522.13)	(10.89)
Preferred Dividend Requirements	5,000.00	3,460,628.31	(3,455,628.31)	(99.86)
Earnings Available for Common	108,257,570.22	118,032,464.04	(9,774,893.82)	(8.28)

Louisville Gas and Electric Company
Analysis of Retained Earnings
April 30, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Balance at Beginning of Period	671,274,440.27	634,438,554.55	689,961,390.20	639,104,729.77	636,462,008.79	611,958,617.30
Add:						
Net Income for Period	3,389,142.74	5,375,562.88	24,702,192.81	36,822,987.81	108,262,570.22	121,493,092.35
FIN 48 Adjustment	-	-	-	258,182.00	(55,996.00)	258,182.00
Deduct:						
Adjustment to Retained Earnings	-	3,787,254.55	-	3,787,254.55	-	3,787,254.55
Preferred Dividends						
$25 Par Value						
5% Series	-		-	746,782.16	5,000.00	1,028,544.98
Without Par Value						
Auction Rate	-		-	624,999.99	-	2,432,083.33
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	(435,145.91)	-	(435,145.91)	-	
Without Par Value						
Auction Rate	-	-	-		-	
Common Dividends						
Common Stock Without Par Value	-	-	40,000,000.00	35,000,000.00	70,000,000.00	90,000,000.00
Balance at End of Period	674,663,583.01	636,462,008.79	674,663,583.01	636,462,008.79	674,663,583.01	636,462,008.79

Louisville Gas and Electric Company
Comparative Balance Sheets as of April 30, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	4,378,886,316.00	4,164,897,022.28
Less Reserves for Depreciation and Amortization	1,898,781,650.91	1,803,312,198.04
Total	2,480,104,665.09	2,361,584,824.24
Investments - at Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	27,638,933.84	2,257,040.94
Other	14,921,226.00	-
Total	43,166,325.04	2,868,664.41
Current and Accrued Assets		
Cash	1,491,264.02	7,257,893.28
Special Deposits	1,538,663.07	22,578,848.72
Temporary Cash Investments	36,310.25	34,756.19
Accounts Receivable-Less Reserve	144,899,165.08	119,317,297.13
Notes Receivable from Associated Companies	-	-
Accounts Receivable from Associated Companies	3,145,552.87	19,366,028.58
Materials and Supplies-At Average Cost		
Fuel	41,626,021.35	49,110,413.91
Plant Materials and Operating Supplies	26,612,701.77	25,248,361.30
Stores Expense	4,486,000.95	4,525,410.41
Gas Stored Underground	16,329,064.58	19,352,922.59
Allowance Inventory	10,618.57	14,016.28
Prepayments	4,000,140.28	3,926,873.03
Miscellaneous Current and Accrued Assets	-	1,983,609.78
Total	244,175,502.79	272,716,431.20
Deferred Debits and Other		
Unamortized Debt Expense	7,571,061.95	9,480,734.69
Unamortized Loss on Bonds	20,952,676.78	19,765,025.49
Accumulated Deferred Income Taxes	52,590,459.57	54,948,007.57
Deferred Regulatory Assets	150,694,189.56	164,824,014.45
Other Deferred Debits	38,251,267.75	42,950,295.42
Total	270,059,655.61	291,968,077.62
Total Assets and Other Debits	3,037,506,148.53	2,929,137,997.47

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	60,000,000.00	40,000,000.00
Other Comprehensive Income	(14,701,983.08)	(8,992,040.00)
Retained Earnings	674,663,583.01	636,462,008.79
Total Common Equity	1,144,296,135.38	1,091,804,504.24
Preferred Stock	-	-
Pollution Control Bonds - Net of Reacquired Bonds	468,104,000.00	574,304,000.00
LT Notes Payable to Associated Companies	410,000,000.00	363,000,000.00
Total Capitalization	2,022,400,135.38	2,029,108,504.24
Current and Accrued Liabilities		
Long-term Debt Due in 1 Year	-	-
ST Notes Payable to Associated Companies	158,075,200.00	21,033,000.00
Notes Payable to Associated Companies	-	-
Notes Payable	-	-
Accounts Payable	93,669,891.54	90,165,684.95
Accounts Payable to Associated Companies	19,666,353.44	68,170,157.84
Customer Deposits	20,064,241.24	18,527,763.30
Taxes Accrued	7,299,525.53	11,421,802.57
Interest Accrued	7,649,936.48	3,846,358.62
Dividends Declared	-	(5,000.00)
ST Obligations Under Capital Leases	275,441.25	-
Miscellaneous Current and Accrued Liabilities	11,902,402.67	12,720,844.02
Total	318,602,992.15	225,880,611.30
Deferred Credits and Other		
LT Obligations Under Capital Leases	-	-
Accumulated Deferred Income Taxes	398,795,538.80	390,473,578.71
Investment Tax Credit	46,094,972.04	42,346,957.74
Regulatory Liabilities	54,711,741.54	55,218,308.78
Customer Advances for Construction	20,132,319.04	21,337,640.53
Asset Retirement Obligations	30,186,557.26	28,696,858.50
Other Deferred Credits	20,151,668.85	33,244,448.01
Miscellaneous Long-term Liabilities	31,009,547.38	6,752,934.37
Accum Provision for Postretirement Benefits	95,420,676.09	96,078,155.29
Total	696,503,021.00	674,148,881.93
Total Liabilities and Other Credits	3,037,506,148.53	2,929,137,997.47

Louisville Gas and Electric Company
Statement of Capitalization and Short-term Debt
April 30, 2008

	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Percent of Total Capital and ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			60,000,000.00		
Other Comprehensive Income			(14,701,983.08)		
Retained Earnings			674,663,583.01		
Total Common Equity			1,144,296,135.38	52.48	56.58
Long-term Debt					
Pollution Control Bonds					
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%			25,000,000.00		
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%			83,335,000.00		
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%			10,104,000.00		
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%			22,500,000.00		
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%			27,500,000.00		
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%			35,000,000.00		
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%			35,000,000.00		
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%			41,665,000.00		
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%			128,000,000.00		
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 Var%			40,000,000.00		
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%			31,000,000.00		
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%			35,200,000.00		
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%			60,000,000.00		
			574,304,000.00	26.34	28.40
Less Reacquired Bonds					
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 Var%			(40,000,000.00)		
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%			(31,000,000.00)		
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%			(35,200,000.00)		
			(106,200,000.00)	(4.87)	(5.25)
Pollution Control Bonds - Net of Reacquired Bonds			468,104,000.00	21.47	23.15
Long-term Notes Payable to Associated Companies			410,000,000.00	18.80	20.27
Total Capitalization			2,022,400,135.38	92.75	100.00
Short-term Notes Payable to Associated Companies			158,075,200.00	7.25	
Total Capitalization and Short-term Debt			2,180,475,335.38	100.00	

Louisville Gas and Electric Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	4,378,886,316.00	4,378,886,316.00
Reserves for Depreciation and Amortization		(1,898,781,650.91)
Electric	(1,603,776,389.79)	
Gas	(211,008,962.50)	
Common	(64,680,200.23)	
Amortization of Plant		
Electric	(100.00)	
Gas	(800.00)	
Common	(19,315,198.39)	
Investments - at Cost		43,166,325.04
Nonutility Property	75,239.56	
Nonutility Property Reserve	(63,360.36)	
Ohio Valley Electric Corporation	594,286.00	
Special Funds	27,638,933.84	
Prepaid Pension	14,921,226.00	
Cash	1,491,264.02	1,491,264.02
Special Deposits		1,538,663.07
Margin Account	1,538,604.93	
MAN Margin Call	58.14	
Temporary Cash Investments		36,310.25
Other	36,310.25	
Accounts Receivable - Less Reserve		144,899,165.08
Working Funds	21,280.00	
Customers - Active	84,948,838.51	
Wholesale Sales	6,118,590.75	
Transmission Sales	311,026.82	
Unbilled Revenues	34,887,000.00	
Employee Computer Loans	93,396.74	
Damage Claims	632,792.98	
RAR Settlements	1,038,234.00	
Officers and Employees	300.00	
IMEA	2,635,898.79	
IMPA	2,738,859.06	
Other	12,789,902.02	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(838,182.00)	
Accrual	(475,465.59)	
Charged Off	1,341,853.90	
Recoveries	(866,388.31)	
A/R Miscellaneous	(1,093,042.00)	
LEM Reserve	(4,167.53)	
Interest and Dividends Receivable	203,329.43	
Rents Receivable	415,107.51	
Accounts Receivable from Associated Companies		3,145,552.87
E.ON US Services/Kentucky Utilities Company	3,145,552.87	
Fuel		41,626,021.35
Coal 1,021,495.09 Tons @ $37.73; MMBtu 23,107,543.98 @ 166.79¢	38,540,209.47	
Fuel Oil 175,782 Gallons @ 217.78¢	382,816.36	
Gas Pipeline 211,276 Mcf @ $12.79	2,702,995.52	

Louisville Gas and Electric Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Plant Materials and Operating Supplies		26,612,701 77
Regular Materials and Supplies	26,408,316.59	
Limestone 28,908 91 Tons @ $7 07	204,385.18	
Stores Expense		4,486,000 95
Stores Expense Undistributed	4,486,000.95	
Gas Stored Underground - Current		16,329,064 58
Gas St Underground*2,258,779 Mcf (14 73 psia) @ $7 23	16,329,064 58	
Allowance Inventory	10,618 57	10,618 57
Prepayments		4,000,140.28
Insurance	2,156,721 88	
Taxes	323,231.27	
Franchises	242,675.49	
Rights of Way	280,000.03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	42,954 40	
Other	864,557 21	
Unamortized Debt Expense		7,571,061.95
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%	454,042.49	
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%	851,670 99	
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%	383,556 00	
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%	180,990.36	
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%	196,869 23	
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%	213,459 02	
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%	213,492 67	
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%	899,398.48	
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%	2,985,973 75	
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%	1,191,608 96	
Unamortized Loss on Bonds		20,952,676.78
Refinanced and Called Bonds	20,952,676 78	
Accumulated Deferred Income Taxes		52,590,459.57
Federal		
Electric	36,776,902.33	
Gas	7,444,969.22	
State		
Electric	7,174,558 71	
Gas	1,194,029.31	
Deferred Regulatory Assets		150,694,189 56
Asset Retirement Obligations		
Electric	19,496,950.88	
Gas	5,348,398.40	
Common	23,644.81	
Pension and Postretirement Benefits	109,420,059.00	
ECR Ash Hauling	4,033,077.33	
MISO Exit Fee	12,372,059 14	
Other Deferred Debits	38,251,267.75	38,251,267 75

* Excludes:	$	Mcf
Non-recoverable Base Gas	9,648,855.00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845 00	10,810,000

Total Assets and Other Debits	3,037,506,148.53	3,037,506,148.53

Louisville Gas and Electric Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,144,296,135.38
Common Stock	425,170,424.09	
Retained Earnings	674,663,583.01	
Common Stock Expense	(835,888.64)	
Paid-In Capital	60,000,000.00	
Other Comprehensive Income	(14,701,983.08)	
Bonds		468,104,000.00
Pollution Control Bonds - Net of Reacquired Bonds	468,104,000.00	
Long-term Notes Payable to Associated Companies	410,000,000.00	410,000,000.00
Short-term Notes Payable to Associated Companies		158,075,200.00
Money Pool Payable	158,075,200.00	
Accounts Payable		93,669,891.54
Regular	90,742,007.45	
Salaries and Wages Accrued	2,070,438.24	
Tax Collections - Payable	857,445.85	
Accounts Payable to Associated Companies		19,666,353.44
E.ON US Services/Kentucky Utilities Company	19,666,353.44	
Customers' Deposits	20,064,241.24	20,064,241.24
Taxes Accrued	7,299,525.53	7,299,525.53
Interest Accrued		7,649,936.48
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%	191,406.25	
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%	144,581.61	
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%	1,474.07	
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%	293,109.82	
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%	358,245.30	
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%	458,780.51	
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%	458,780.82	
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%	90,736.34	
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%	22,808.84	
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 Var%	69,180.37	
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%	48,964.80	
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%	55,598.72	
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%	1,149,999.98	
Interest Rate Swaps	434,586.21	
Fidelia	3,020,800.48	
Customers' Deposits	850,882.36	
Short-term Obligations under Capital Leases	275,441.25	275,441.25
Miscellaneous Current and Accrued Liabilities		11,902,402.67
Customer Overpayments	3,122,073.57	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	5,260,881.59	
Derivative Liabilities - Non-Hedging	(0.03)	
Postretirement Benefits - Current	3,061,339.00	
Other	208,108.54	

Louisville Gas and Electric Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Customers' Advances for Construction		20,132,319.04
Line Extensions		
Electric	808,279.89	
Gas	8,042,634.46	
Customer Advances - Arena	11,281,404.69	
Asset Retirement Obligations		30,186,557.26
Electric	22,238,887.74	
Gas	7,921,466.27	
Common	26,203.25	
Other Deferred Credits	20,151,668.85	20,151,668.85
Regulatory Liabilities		54,711,741.54
Asset Retirement Obligations		
Electric	233,950.31	
Gas	128,566.48	
Deferred Taxes		
Federal		
Electric	25,792,713.75	
Gas	1,770,696.50	
State		
Electric	18,484,585.00	
Gas	2,731,315.50	
MISO Schedule 10 Charges	5,569,914.00	
Investment Tax Credit		46,094,972.04
Job Development Credit		
Electric	31,721,091.14	
Gas	1,094,254.90	
Advanced Coal Credit	13,279,626.00	
Accumulated Deferred Income Taxes		398,795,538.80
Federal		
Electric	289,631,425.29	
Gas	51,350,987.50	
Common	(1.00)	
State		
Electric	49,474,892.34	
Gas	8,338,234.67	
Miscellaneous Long-term Liabilities		31,009,547.38
Workers' Compensation	5,581,407.38	
Uncertain Tax Positions	29,044.00	
Long-term Derivative Liabilities - SFAS 133	25,399,096.00	
Accumulated Provision for Benefits		95,420,676.09
Pension Payable	13,347,081.00	
Postretirement Benefits - SFAS 106	78,455,708.57	
Post Employment Benefits Payable	3,762,588.00	
Post Employment Medicare Subsidy	(144,701.48)	
Total Liabilities and Other Credits	3,037,506,148.53	3,037,506,148.53

Louisville Gas and Electric Company
Statement of Cash Flows
April 30, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	24,702,192.81	36,822,987.81
Items not requiring (providing) cash currently:		
Depreciation	40,067,662.57	39,194,325.27
Amortization	1,762,468.67	2,102,813.96
Deferred income taxes - net	248,667.57	2,927,077.07
Investment tax credit - net	(3,990.16)	1,276,720.60
Other	(1,130,117.01)	(318,963.61)
Change in receivables	40,533,911.30	45,878,175.83
Change in inventory	69,052,262.08	52,158,750.72
Change in allowance inventory	840.90	1,386.72
Change in payables and accrued expenses	(7,745,961.41)	(62,593,059.09)
Change in other regulatory assets	327,859.72	(1,204,310.91)
Change in other regulatory liabilities	(403,796.08)	(152,262.08)
Change in other deferred debits	(5,530,562.03)	(7,792,045.42)
Change in other deferred credits	(20,710,584.56)	(18,033,587.28)
Other	11,239,259.81	4,620,869.21
Net cash provided (used) by operating activities	152,410,114.18	94,888,878.80
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(72,973,917.58)	(42,815,722.73)
Gross additions to common utility plant - construction expenditures	(9,484,055.18)	(3,181,947.74)
Change in long-term investments	385,022.65	583,258.87
Change in restricted cash	(8,737,689.82)	(9,813,300.62)
Net cash provided (used) by investing activities	(90,810,639.93)	(55,227,712.22)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	(8,927.49)	136,033,320.39
Net increase in short-term debt	79,834,000.00	-
Payments for reacquisition of long-term debt	(106,200,000.00)	-
Net increase in derivative liabilities	3,906,160.00	-
Payments for retirement of preferred stock	-	(91,643,112.60)
Net decrease in short-term debt	-	(46,791,000.00)
Net decrease in short-term capital lease obligations	(129,996.44)	-
Net decrease in long-term capital lease obligations	(23,649.00)	-
Change in restricted cash	(1,797,905.93)	-
Dividends on preferred stock	-	(4,416,711.93)
Dividends on common stock	(40,000,000.00)	(35,000,000.00)
Net cash provided (used) by financing activities	(64,420,318.86)	(41,817,504.14)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,820,844.61)	(2,156,337.56)
Cash and Cash Equivalents at Beginning of Period	4,348,418.88	9,448,987.03
Cash and Cash Equivalents at End of Period	1,527,574.27	7,292,649.47

Louisville Gas and Electric Company
Analysis of Interest Charges
April 30, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
1992 Series A Variable	-	183,248.21	-	465,181.37	(114,698.96)	1,222,861.65
1992 Series A Variable TC	-	353,243.84	-	892,126.04	(221,983.33)	2,341,356.17
1993 Series A Variable Rate	-	206,956.73	-	523,120.24	(130,235.14)	1,384,141.17
1995 Series A (5.90%)	-	-	-	-	-	-
Jefferson County 2000 Series A due May 1, 2027	164,062.50	74,895.82	539,670.12	301,319.44	1,176,232.62	909,236.14
Trimble County 2000 Series A due Aug. 1, 2030	212,212.58	253,060.62	1,075,479.85	1,002,219.13	3,450,708.22	3,121,395.56
Jefferson County 2001 Series A due Sep. 1, 2027	24,494.07	31,546.93	121,641.22	122,946.04	400,506.06	372,074.16
Jefferson County 2001 Series A due Sep. 1, 2026	59,414.16	67,315.07	239,637.08	267,152.07	795,470.12	816,004.12
Trimble County 2001 Series A due Sep. 1, 2026	72,617.29	82,273.97	292,889.74	326,519.18	972,241.19	997,338.36
Jefferson County 2001 Series B due Nov. 1, 2027	92,996.06	105,863.02	375,084.10	418,465.77	1,241,476.46	1,281,421.93
Trimble County 2001 Series B due Nov. 1, 2027	92,996.06	105,863.31	375,084.10	418,466.06	1,238,887.43	1,281,422.21
Trimble County 2002 Series A due Oct. 1, 2032	129,086.37	127,392.16	594,641.55	499,380.70	1,714,653.86	1,508,147.40
Louisville Metro 2003 Series A due Oct. 1, 2033	696,913.74	378,666.68	2,076,942.19	1,536,000.04	5,311,128.85	4,614,453.37
Louisville Metro 2005 Series A due Feb. 1, 2035	69,180.33	121,361.11	584,451.02	470,772.21	1,572,517.70	1,413,522.17
Louisville Metro 2007 Series A due Jun. 1, 2033	76,745.92	15,715.29	552,397.87	15,715.29	1,325,995.99	15,715.29
Louisville Metro 2007 Series B due Jun. 1, 2033	87,143.76	38,333.32	617,485.55	38,333.32	1,479,656.25	38,333.32
Trimble County 2007 Series A due Jun. 1, 2033	248,270.00	17,844.44	930,603.33	17,844.44	2,798,758.93	17,844.44
Interest Rate Swaps	434,586.25	129,637.24	1,409,701.48	549,914.24	2,452,508.54	1,603,761.26
Notes/Debentures	20,029.00	-	36,466.00	-	3,472,721.41	-
Fidelia	1,820,774.99	1,299,966.11	7,283,099.96	4,035,591.14	20,341,234.38	11,330,591.22
$5.875 Mandatory Redeemable Preferred Stock	-	0.02	-	345,972.25	-	1,141,545.17
Total	4,301,523.08	3,593,183.89	17,105,275.16	12,247,038.97	49,277,780.58	35,411,165.11
Amortization of Debt Expense - Net						
Amortization of Debt Expense	27,138.92	32,044.56	126,645.16	134,206.62	393,506.16	406,638.78
Amortization of Loss on Reacquired Debt	93,748.55	86,622.77	356,904.62	342,030.89	1,050,279.68	1,023,118.97
Total	120,887.47	118,667.33	483,549.78	476,237.51	1,443,785.84	1,429,757.75
Other Interest Charges						
Customers' Deposits	85,681.73	80,789.95	341,885.16	312,506.50	998,419.54	923,037.36
Federal Income Tax Deficiencies	-	(0.31)	-	(1,058,734.31)	-	383,125.68
Other Tax Deficiencies	-	-	1,111.00	1,791.71	(500.41)	1,791.71
Gas Refunds	-	475.76	-	1,903.04	544.60	4,281.84
Interest on Debt to Associated Companies	323,059.20	40,745.13	940,676.24	625,910.84	4,392,238.45	1,435,646.49
Other Interest Expense	154.99	-	154.99	7,942.11	794.44	7,942.11
Total	408,895.92	122,010.53	1,283,827.39	(108,680.11)	5,391,496.62	2,755,825.19
Total Interest	4,831,306.47	3,833,861.75	18,872,652.33	12,614,596.37	56,113,063.04	39,596,748.05

Louisville Gas and Electric Company
Analysis of Taxes Charged
April 30, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,352,184.77	1,180,774.00	5,408,739.08	5,042,859.00
Unemployment	40,889.16	9,300.07	70,950.66	71,149.91
FICA	482,621.79	481,072.25	2,109,691.24	2,024,153.62
Public Service Commission Fee	161,615.66	158,705.95	646,462.64	634,823.80
Federal Income	2,734,757.11	2,923,763.40	12,442,024.51	14,091,266.53
State Income	520,906.12	664,280.76	1,988,496.30	2,824,680.40
Miscellaneous	7,339.75	6,232.21	104,503.51	6,232.21
Total Charged to Operating Expense	5,300,314.36	5,424,128.64	22,770,867.94	24,695,165.47
Taxes Charged to Other Accounts	65,231.57	234,640.29	6,750,202.68	(426,410.85)
Taxes Accrued on Intercompany Accounts	(180,108.12)	(190,045.44)	(719,022.02)	(811,750.29)
Total Taxes Charged	5,185,437.81	5,468,723.49	28,802,048.60	23,457,004.33

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	9,962,060.51	5,488,332.00	9,698,673.95	5,751,718.56
Unemployment	53,548.05	48,919.35	102,134.24	333.16
FICA	618,958.69	1,930,269.23	2,272,763.81	276,464.11
Federal Income	(6,107,469.91)	17,377,616.23	13,793,423.91	(2,523,277.59)
State Income	(832,671.91)	2,613,811.45	(1,793,539.09)	3,574,678.63
Kentucky Sales and Use Tax	527,167.51	1,288,762.18	1,596,321.03	219,608.66
Miscellaneous	-	54,338.16	54,338.16	-
Totals	4,221,592.94	28,802,048.60	25,724,116.01	7,299,525.53

Louisville Gas and Electric Company
Summary of Utility Plant - Utility Plant in Service
April 30, 2008

Utility Plant in Service	Net Balance First of Year	Additions	Retirements	Transfers/ Adjustments	Net Additions	Balance to Date
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,957,341,584.73	18,211,654.10	(1,235,775.98)	-	16,975,878.12	1,974,317,462.85
Hydro	29,738,481.51	-	-	-	-	29,738,481.51
Other Production	225,593,229.05	2,943.40	-	-	2,943.40	225,596,172.45
Transmission	254,545,457.73	606,585.18	(60,974.36)	-	545,610.82	255,091,068.55
Distribution	762,409,249.99	14,487,265.50	(64,276.64)	-	14,422,988.86	776,832,238.85
General	16,648,246.38	6,380.50	-	-	6,380.50	16,654,626.88
Total Electric	3,246,278,589.68	33,314,828.68	(1,361,026.98)	-	31,953,801.70	3,278,232,391.38
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	62,254,077.12	57,966.45	(462.83)	-	57,503.62	62,311,580.74
Transmission	12,901,908.09	-	-	-	-	12,901,908.09
Distribution	464,243,423.53	8,152,674.45	(2,043.77)	-	8,150,630.68	472,394,054.21
General	9,033,095.77	5,377.09	-	-	5,377.09	9,038,472.86
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	550,573,682.00	8,216,017.99	(2,506.60)	-	8,213,511.39	558,787,193.39
Common						
Intangible	28,321,223.19	1,025,946.73	-	-	1,025,946.73	29,347,169.92
General	149,510,912.37	1,128,593.00	-	-	1,128,593.00	150,639,505.37
Total Common	177,832,135.56	2,154,539.73	-	-	2,154,539.73	179,986,675.29
Total Plant in Service	3,974,684,407.24	43,685,386.40	(1,363,533.58)	-	42,321,852.82	4,017,006,260.06
Construction Work In Progress						
Electric	253,332,706.20	9,957,842.04	-	-	9,957,842.04	263,290,548.24
Gas	62,549,383.39	150,914.51	-	-	150,914.51	62,700,297.90
Common	28,559,694.35	7,329,515.45	-	-	7,329,515.45	35,889,209.80
Total Construction Work In Progress	344,441,783.94	17,438,272.00	-	-	17,438,272.00	361,880,055.94
Total Utility Plant at Original Cost	4,319,126,191.18	61,123,658.40	(1,363,533.58)	-	59,760,124.82	4,378,886,316.00

Louisville Gas and Electric Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
April 30, 2008

Reserve for Depreciation of Utility	Net Balance First of Year	Accruals	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Electric	(1,378,260,021.25)	(28,378,061.45)	1,361,026.98	-	-	-	-	-	(1,405,277,055.72)
Electric - ARO Steam	(2,207,905.66)	(65,641.69)	-	-	-	-	-	-	(2,273,547.35)
Electric - ARO Hydro	(16,818.08)	(164.88)	-	-	-	-	-	-	(16,982.96)
Electric - ARO Other Production	(114,837.08)	(1,125.84)	-	-	-	-	-	-	(115,962.92)
Electric - ARO Transmission	(2,336.94)	(571.39)	-	-	-	-	-	-	(2,908.33)
Electric - ARO Distribution	(12,367.53)	(121.93)	-	-	-	-	-	-	(12,489.46)
Gas	(155,853,439.88)	(3,720,047.74)	2,506.60	-	-	-	-	-	(159,570,981.02)
Gas - ARO Underground Storage	(401,123.53)	(2,973.08)	-	-	-	-	-	-	(404,096.61)
Gas - ARO Distribution	(19,162.71)	(56.82)	-	-	-	-	-	-	(19,219.53)
Common - ARO	(1,165.28)	(11.44)	-	-	-	-	-	-	(1,176.72)
Common	(62,470,548.01)	(2,098,221.85)	-	-	-	-	-	-	(64,568,769.86)
Total Life Reserves for Depreciation of Utility Plant in Service	(1,599,359,725.95)	(34,266,998.11)	1,363,533.58	-	-	-	-	-	(1,632,263,190.48)
Salvage Reserves									
Steam Production	(52,156,645.28)	(1,941,772.51)	-	-	-	357,035.96	(103,285.00)	-	(53,844,666.83)
Hydro Production	356,090.84	-	-	-	-	-	-	-	356,090.84
Other Production	(2,090,919.89)	-	-	-	-	-	-	-	(2,090,919.89)
Transmission	(16,955,752.03)	(373,762.63)	-	-	-	311,200.15	-	-	(17,018,314.51)
Distribution	(136,112,169.74)	(2,068,968.43)	-	-	-	156,930.48	-	-	(138,024,207.69)
Distribution General	112,862.90	7,552.68	-	-	-	-	-	-	120,415.58
Gas Stored Underground	47,228.50	(74,520.91)	-	-	-	-	-	-	(27,292.41)
Gas Transmission	(2,748,634.29)	(34,662.08)	-	-	-	-	-	-	(2,783,296.37)
Gas Distribution	(51,376,946.18)	(1,541,790.52)	-	-	-	984,538.44	(462.36)	-	(51,934,660.62)
Gas General	190,825.93	14,433.28	-	-	-	-	-	-	205,259.21
Common	(186,487.96)	(22,711.81)	-	-	-	-	-	-	(209,199.77)
Total Salvage Reserves for Depreciation of Utility Plant in Service	(260,920,547.20)	(6,036,202.93)	-	-	-	1,809,705.03	(103,747.36)	-	(265,250,792.46)
Total Reserves									
Electric	(1,587,460,819.74)	(32,822,638.07)	1,361,026.98	-	-	825,166.59	(103,285.00)	-	(1,618,200,549.24)
Gas	(210,161,252.16)	(5,359,617.87)	2,506.60	-	-	984,538.44	(462.36)	-	(214,534,287.35)
Common	(62,658,201.25)	(2,120,945.10)	-	-	-	-	-	-	(64,779,146.35)
Total Reserve for Depreciation of Utility Plant in Service	(1,860,280,273.15)	(40,303,201.04)	1,363,533.58	-	-	1,809,705.03	(103,747.36)	-	(1,897,513,982.94)
Retirement Work In Progress									
108001									
Electric	1,447,528.21	-	-	-	(74,350.97)	(21,107.96)	-	(17,793.50)	1,334,275.78
Gas	108,221.49	-	-	-	(1,189.88)	-	-	-	107,031.61
Common	(175.35)	-	-	-	-	-	-	175.35	-
Total 108001 RWIP	1,555,574.35	-	-	-	(75,540.85)	(21,107.96)	-	(17,618.15)	1,441,307.39
108901									
Electric	12,353,182.04	-	-	-	(703,342.74)	1,757,803.92	(99,315.09)	(218,444.46)	13,089,883.67
Gas	3,887,367.55	-	-	-	(927,074.08)	457,999.77	-	-	3,418,293.24
Common	190,065.66	-	-	-	-	(65,047.19)	(25,897.00)	(175.35)	98,946.12
Total 108901 RWIP	16,430,615.25	-	-	-	(1,630,416.82)	2,150,756.50	(125,212.09)	(218,619.81)	16,607,123.03
Total RWIP	17,986,189.60	-	-	-	(1,705,957.67)	2,129,648.54	(125,212.09)	(236,237.96)	18,048,430.42
Year to Date	(1,842,294,083.55)	(40,303,201.04)	1,363,533.58	-	(1,705,957.67)	3,939,353.57	(228,959.45)	(236,237.96)	(1,879,465,552.52)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(17,552,729.72)	(1,762,468.67)	-	-	-	-	-	-	(19,315,198.39)
Total Reserve for Amortization of Utility Plant in Service	(17,553,629.72)	(1,762,468.67)	-	-	-	-	-	-	(19,316,098.39)
Total Reserve for Depreciation and Amortization - Utility Plant in Service	(1,859,847,713.27)	(42,065,669.71)	1,363,533.58	-	(1,705,957.67)	3,939,353.57	(228,959.45)	(236,237.96)	(1,898,781,650.91)
Utility Plant at Original Cost Less Reserve for Depreciation and Amortization	2,459,278,477.91								2,480,104,665.09

LG&E Monthly Report to KPSC – March 31, 2008

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

March 31, 2008

Prepared by Regulatory Accounting and Reporting

Louisville Gas and Electric Company
Comparative Statement of Income
March 31, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	73,808,171.03	68,435,391.90	5,372,779.13	7.85
Gas Operating Revenues	46,431,444.44	30,548,496.84	15,882,947.60	51.99
Total Operating Revenues	120,239,615.47	98,983,888.74	21,255,726.73	21.47
Fuel for Electric Generation	25,624,500.52	23,950,110.30	1,674,390.22	6.99
Power Purchased	8,476,340.51	5,984,596.87	2,491,743.64	41.64
Gas Supply Expenses	32,108,197.28	16,423,903.16	15,684,294.12	95.50
Other Operation Expenses	16,271,795.59	16,536,718.86	(264,923.27)	(1.60)
Maintenance	10,690,637.10	7,976,058.51	2,714,578.59	34.03
Depreciation	10,072,521.68	9,833,622.09	238,899.59	2.43
Amortization Expense	461,192.95	595,854.31	(134,661.36)	(22.60)
Regulatory Credits	(172,146.83)	(163,026.93)	(9,119.90)	5.59
Taxes				
Federal Income	1,110,441.06	(1,081,277.42)	2,191,718.48	(202.70)
State Income	(169,900.54)	(561,551.60)	391,651.06	(69.74)
Deferred Federal Income - Net	(333,729.55)	1,046,568.59	(1,380,298.14)	(131.89)
Deferred State Income - Net	46,924.12	289,123.48	(242,199.36)	(83.77)
Property and Other	2,154,153.35	2,225,626.62	(71,473.27)	(3.21)
Investment Tax Credit	1,300,000.00	2,600,000.00	(1,300,000.00)	(50.00)
Amortization of Investment Tax Credit	(336,259.16)	(335,553.40)	(705.76)	0.21
Loss (Gain) from Disposition of Allowances	(456,209.92)	(553,029.14)	96,819.22	(17.51)
Accretion Expense	157,463.21	148,341.13	9,122.08	6.15
Total Operating Expenses	107,005,921.37	84,916,085.43	22,089,835.94	26.01
Net Operating Income	13,233,694.10	14,067,803.31	(834,109.21)	(5.93)
Other Income Less Deductions	(24,408.09)	(256,864.99)	232,456.90	(90.50)
Income Before Interest Charges	13,209,286.01	13,810,938.32	(601,652.31)	(4.36)
Interest on Long-term Debt	4,463,554.34	2,954,752.53	1,508,801.81	51.06
Amortization of Debt Expense - Net	120,887.47	119,190.06	1,697.41	1.42
Other Interest Expenses	200,480.29	163,305.93	37,174.36	22.76
Total Interest Charges	4,784,922.10	3,237,248.52	1,547,673.58	47.81
Net Income	8,424,363.91	10,573,689.80	(2,149,325.89)	(20.33)
Preferred Dividend Requirements	-	775,889.05	(775,889.05)	(100.00)
Earnings Available for Common	8,424,363.91	9,797,800.75	(1,373,436.84)	(14.02)

Louisville Gas and Electric Company
Comparative Statement of Income
March 31, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	224,395,942.29	222,392,155.25	2,003,787.04	0.90
Gas Operating Revenues	190,735,820.55	152,506,091.22	38,229,729.33	25.07
Total Operating Revenues	415,131,762.84	374,898,246.47	40,233,516.37	10.73
Fuel for Electric Generation	79,474,753.29	76,216,793.70	3,257,959.59	4.27
Power Purchased	23,882,783.37	26,084,742.52	(2,201,959.15)	(8.44)
Gas Supply Expenses	152,509,584.32	114,489,888.68	38,019,695.64	33.21
Other Operation Expenses	48,454,278.92	46,109,664.67	2,344,614.25	5.08
Maintenance	26,660,102.01	17,885,705.46	8,774,396.55	49.06
Depreciation	30,111,478.36	29,354,599.68	756,878.68	2.58
Amortization Expense	1,306,066.27	1,574,707.10	(268,640.83)	(17.06)
Regulatory Credits	(516,444.87)	(473,501.49)	(42,943.38)	9.07
Taxes				
Federal Income	9,707,267.40	11,167,503.13	(1,460,235.73)	(13.08)
State Income	1,467,590.18	2,160,399.64	(692,809.46)	(32.07)
Deferred Federal Income - Net	(333,729.55)	1,046,568.59	(1,380,298.14)	(131.89)
Deferred State Income - Net	46,924.12	289,123.48	(242,199.36)	(83.77)
Property and Other	6,295,696.00	5,943,134.06	352,561.94	5.93
Investment Tax Credit	1,300,000.00	2,600,000.00	(1,300,000.00)	(50.00)
Amortization of Investment Tax Credit	(981,413.16)	(994,037.40)	12,624.24	(1.27)
Loss (Gain) from Disposition of Allowances	(456,209.92)	(553,029.14)	96,819.22	(17.51)
Accretion Expense	472,389.63	445,847.19	26,542.44	5.95
Total Operating Expenses	379,401,116.37	333,348,109.87	46,053,006.50	13.82
Net Operating Income	35,730,646.47	41,550,136.60	(5,819,490.13)	(14.01)
Other Income Less Deductions	(376,250.54)	(1,321,977.05)	945,726.51	(71.54)
Income Before Interest Charges	35,354,395.93	40,228,159.55	(4,873,763.62)	(12.12)
Interest on Long-term Debt	12,803,752.08	8,653,855.08	4,149,897.00	47.95
Amortization of Debt Expense - Net	362,662.31	357,570.18	5,092.13	1.42
Other Interest Expenses	874,931.47	(230,690.64)	1,105,622.11	(479.27)
Total Interest Charges	14,041,345.86	8,780,734.62	5,260,611.24	59.91
Net Income	21,313,050.07	31,447,424.93	(10,134,374.86)	(32.23)
Preferred Dividend Requirements	-	1,371,782.15	(1,371,782.15)	(100.00)
Earnings Available for Common	21,313,050.07	30,075,642.78	(8,762,592.71)	(29.14)

Louisville Gas and Electric Company
Comparative Statement of Income
March 31, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	934,459,354.31	952,255,378.63	(17,796,024.32)	(1.87)
Gas Operating Revenues	390,911,458.36	347,880,835.19	43,030,623.17	12.37
Total Operating Revenues	1,325,370,812.67	1,300,136,213.82	25,234,598.85	1.94
Fuel for Electric Generation	320,521,520.76	304,713,510.12	15,808,010.64	5.19
Power Purchased	80,135,088.96	111,229,293.42	(31,094,204.46)	(27.96)
Gas Supply Expenses	291,611,914.77	247,743,110.35	43,868,804.42	17.71
Other Operation Expenses	175,497,270.44	180,718,749.87	(5,221,479.43)	(2.89)
Maintenance	91,316,389.40	78,605,052.33	12,711,337.07	16.17
Depreciation	120,329,943.35	118,267,178.35	2,062,765.00	1.74
Amortization Expense	5,931,321.40	6,059,589.17	(128,267.77)	(2.12)
Regulatory Credits	(1,983,687.42)	(2,277,728.32)	294,040.90	(12.91)
Taxes				
Federal Income	33,164,349.26	50,645,272.72	(17,480,923.46)	(34.52)
State Income	6,927,699.07	11,400,905.36	(4,473,206.29)	(39.24)
Deferred Federal Income - Net	8,095,572.79	4,854,721.98	3,240,850.81	66.76
Deferred State Income - Net	1,257,954.10	(1,043,008.48)	2,300,962.58	(220.61)
Property and Other	22,249,225.42	22,238,519.69	10,705.73	0.05
Investment Tax Credit	7,679,626.00	5,600,000.00	2,079,626.00	37.14
Amortization of Investment Tax Credit	(3,938,276.70)	(3,998,905.41)	60,628.71	(1.52)
Loss (Gain) from Disposition of Allowances	(456,273.47)	(553,138.60)	96,865.13	(17.51)
Accretion Expense	1,807,459.80	2,091,070.48	(283,610.68)	(13.56)
Total Operating Expenses	1,160,147,097.93	1,136,294,193.03	23,852,904.90	2.10
Net Operating Income	165,223,714.74	163,842,020.79	1,381,693.95	0.84
Other Income Less Deductions	140,893.94	(2,264,966.65)	2,405,860.59	(106.22)
Income Before Interest Charges	165,364,608.68	161,577,054.14	3,787,554.54	2.34
Interest on Long-term Debt	48,569,441.39	34,567,457.65	14,001,983.74	40.51
Amortization of Debt Expense - Net	1,441,565.70	1,430,280.45	11,285.25	0.79
Other Interest Expenses	5,104,611.23	2,803,314.63	2,301,296.60	82.09
Total Interest Charges	55,115,618.32	38,801,052.73	16,314,565.59	42.05
Net Income	110,248,990.36	122,776,001.41	(12,527,011.05)	(10.20)
Preferred Dividend Requirements	(430,145.91)	4,208,305.62	(4,638,451.53)	(110.22)
Earnings Available for Common	110,679,136.27	118,567,695.79	(7,888,559.52)	(6.65)

Louisville Gas and Electric Company
Analysis of Retained Earnings
March 31, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Balance at Beginning of Period	702,850,076.36	659,382,571.80	689,961,390.20	639,104,729.77	634,438,554.55	605,612,676.76
Add:						
Net Income for Period	8,424,363.91	10,573,689.80	21,313,050.07	31,447,424.93	110,248,990.36	122,776,001.41
FIN 48 Adjustment	-	258,182.00	-	258,182.00	(55,996.00)	258,182.00
Deduct:						
Adjustment to Retained Earnings	-	-	-	-	3,787,254.55	-
Preferred Dividends						
$25 Par Value						
5% Series	-	-	-	746,782.16	(430,145.91)	1,553,305.62
Without Par Value						
Auction Rate	-	-	-	624,999.99	-	2,655,000.00
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	567,555.71	-	-	-	-
Without Par Value						
Auction Rate	-	208,333.34	-	-	-	-
Common Dividends						
Common Stock Without Par Value	40,000,000.00	35,000,000.00	40,000,000.00	35,000,000.00	70,000,000.00	90,000,000.00
Balance at End of Period	671,274,440.27	634,438,554.55	671,274,440.27	634,438,554.55	671,274,440.27	634,438,554.55

Louisville Gas and Electric Company
Comparative Balance Sheets as of March 31, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	4,364,001,781.02	4,155,082,663.30
Less Reserves for Depreciation & Amortization	1,889,111,250.34	1,795,177,233.59
Total	2,474,890,530.68	2,359,905,429.71
Investments - at Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	13,491,863.28	2,494,928.12
Other	14,921,226.00	-
Total	29,019,254.48	3,106,551.59
Current and Accrued Assets		
Cash	3,065,365.54	6,197,275.51
Special Deposits	1,543,865.68	22,690,734.17
Temporary Cash Investments	36,237.89	5,527.08
Accounts Receivable-Less Reserve	179,360,457.36	137,988,112.42
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc. Companies	5,011,422.99	17,242,521.50
Materials & Supplies-At Average Cost		
Fuel	36,535,349.92	42,494,238.95
Plant Materials & Operating Supplies	26,609,496.65	25,202,158.50
Stores Expense	4,537,670.78	4,456,265.65
Gas Stored Underground	23,358,692.02	29,721,586.88
Allowance Inventory	10,786.27	14,277.55
Prepayments	4,769,645.77	4,690,382.17
Miscellaneous Current & Accrued Assets	-	1,411,273.01
Total	284,838,990.87	292,114,353.39
Deferred Debits and Other		
Unamortized Debt Expense	8,812,729.51	8,029,882.84
Unamortized Loss on Bonds	19,822,969.17	19,367,865.03
Accumulated Deferred Income Taxes	53,881,247.57	54,915,404.57
Deferred Regulatory Assets	150,457,746.08	164,428,075.41
Other Deferred Debits	32,083,332.41	40,191,501.40
Total	265,058,024.74	286,932,729.25
Total Assets and Other Debits	3,053,806,800.77	2,942,059,063.94

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	60,000,000.00	40,000,000.00
Other Comprehensive Income	(16,729,414.63)	(8,940,830.00)
Retained Earnings	671,274,440.27	634,438,554.55
Total Common Equity	1,138,879,561.09	1,089,832,260.00
Preferred Stock	-	70,424,594.05
Pollution Control Bonds - Net of Reacquired Bonds	534,304,000.00	574,304,000.00
LT Notes Payable to Associated Companies	410,000,000.00	225,000,000.00
Total Capitalization	2,083,183,561.09	1,959,560,854.05
Current and Accrued Liabilities		
Long-term Debt Due in 1 Year	-	20,000,000.00
ST Notes Payable to Associated Companies	108,086,200.00	24,117,000.00
Notes Payable to Associated Companies	-	-
Notes Payable	-	-
Accounts Payable	106,635,795.49	91,525,196.06
Accounts Payable to Associated Companies	10,177,711.89	65,066,430.73
Customer Deposits	19,911,316.55	18,785,941.04
Taxes Accrued	11,035,882.29	32,089,124.28
Interest Accrued	11,457,379.55	5,027,345.92
Dividends Declared	-	36,371,780.74
ST Obligations Under Capital Leases	341,988.62	-
Miscellaneous Current & Accrued Liabilities	12,032,189.65	12,047,841.34
Total	279,678,464.04	305,030,660.11
Deferred Credits and Other		
LT Obligations Under Capital Leases	-	-
Accumulated Deferred Income Taxes	398,795,538.80	390,473,578.71
Investment Tax Credit	46,417,549.04	42,676,199.74
Regulatory Liabilities	54,426,533.81	54,933,101.05
Customer Advances for Construction	10,730,003.85	21,363,714.40
Asset Retirement Obligations	30,047,914.20	28,851,515.37
Other Deferred Credits	20,943,851.27	36,317,943.03
Miscellaneous Long-term Liabilities	34,210,904.38	6,752,934.37
Accum Provision for Postretirement Benefits	95,372,480.29	96,098,563.11
Total	690,944,775.64	677,467,549.78
Total Liabilities and Other Credits	3,053,806,800.77	2,942,059,063.94

Louisville Gas and Electric Company
Statement of Capitalization and Short-term Debt
March 31, 2008

	Authorized	Issued & Outstanding		Percent of Total	
	Shares	Shares	Amount	Capital & ST Debt	Capital
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			60,000,000.00		
Other Comprehensive Income			(16,729,414.63)		
Retained Earnings			671,274,440.27		
Total Common Equity			1,138,879,561.09	51.98	54.67
Long-term Debt					
Pollution Control Bonds					
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%			25,000,000.00		
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%			83,335,000.00		
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%			10,104,000.00		
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%			22,500,000.00		
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%			27,500,000.00		
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%			35,000,000.00		
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%			35,000,000.00		
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%			41,665,000.00		
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%			128,000,000.00		
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 Var%			40,000,000.00		
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%			31,000,000.00		
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%			35,200,000.00		
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%			60,000,000.00		
			574,304,000.00	26.21	27.57
Less Reacquired Bonds					
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35			(40,000,000.00)	(1.83)	(1.92)
Pollution Control Bonds - Net of Reacquired Bonds			534,304,000.00	24.38	25.65
Long-term Notes Payable to Associated Companies			410,000,000.00	18.71	19.68
Total Capitalization			2,083,183,561.09	95.07	100.00
Short-term Notes Payable to Associated Companies			108,086,200.00	4.93	
Total Capitalization and Short-term Debt			2,191,269,761.09	100.00	

Louisville Gas and Electric Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	4,364,001,781 02	4,364,001,781 02
Reserves for Depreciation and Amortization		(1,889,111,250 34)
Electric	(1,596,287,092 78)	
Gas	(209,798,049 91)	
Common	(64,166,411 66)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(18,858,795 99)	
Investments - at Cost		29,019,254 48
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	13.491,863 28	
Prepaid Pension	14,921,226 00	
Cash	3,065,365 54	3,065,365 54
Special Deposits		1,543,865 68
Margin Account	1,543,666 79	
MAN Margin Call	198 89	
Temporary Cash Investments		36,237 89
Other	36,237 89	
Accounts Receivable - Less Reserve		179,360,457 36
Working Funds	21,280 00	
Customers - Active	101,914,121 97	
Wholesale Sales	8,844,204 06	
Transmission Sales	217,869 21	
Unbilled Revenues	46,882,000 00	
Employee Computer Loans	98,445 79	
Damage Claims	658,881 32	
RAR Settlements	1,038,234 00	
IMEA	2,611,506 08	
IMPA	2,717,887 72	
Other	15,849,359 50	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(920,496 00)	
Accrual	(394,483 40)	
Charged Off	1,095,544 12	
Recoveries	(701,060 72)	
A/R Miscellaneous	(1,093,042 00)	
LEM Reserve	(10,175 05)	
Interest and Dividends Receivable	91,565 10	
Rents Receivable	438,815 66	
Accounts Receivable from Associated Companies		5,011,422 99
E ON US Services/Kentucky Utilities Company	5,011,422 99	
Fuel		36,535,349 92
Coal 917,697 95 Tons @ $37 16; MMBtu 20,794,215 42 @ 164 01¢	34,103,585 40	
Fuel Oil 180,667 Gallons @ 218 21¢	394,233 80	
Gas Pipeline 201,098 Mcf @ $10 13	2,037,530 72	

Louisville Gas and Electric Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Plant Materials and Operating Supplies		26,609,496 65
Regular Materials and Supplies	26,371,246 72	
Limestone 33,497 91 Tons @ $7 11	238,249 93	
Stores Expense		4,537,670 78
Stores Expense Undistributed	4,537,670 78	
Gas Stored Underground - Current		23,358,692 02
Gas St Underground*3,231,186 Mcf (14 73 psia) @ $7 23	23,358,692 02	
Allowance Inventory	10,786 27	10,786 27
Prepayments		4,769,645 77
Insurance	2,491,702 30	
Taxes	484,846 93	
Franchises	286,010 40	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	46,859 34	
Other	1,090,226 77	
Unamortized Debt Expense		8,812,729 51
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%	456,034 49	
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%	854,860 99	
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%	385,209 00	
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%	181,813 36	
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%	197,764 23	
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%	214,371 02	
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%	214,404 67	
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%	902,468 48	
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%	2,995,732 97	
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%	625,855 44	
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%	588,673 20	
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%	1,195,541 66	
Unamortized Loss on Bonds		19,822,969 17
Refinanced and Called Bonds	19,822,969 17	
Accumulated Deferred Income Taxes		53,881,247 57
Federal		
Electric	37,650,256 33	
Gas	7,663,309 22	
State		
Electric	7,333,831 71	
Gas	1,233,850 31	
Common	0 00	
Deferred Regulatory Assets		150,457,746 08
Asset Retirement Obligations		
Electric	19,362,579 32	
Gas	5,310,748 76	
Common	23,516 93	
Pension and Postretirement Benefits	109,420,059 00	
ECR Ash Hauling	3,954,279 77	
MISO Exit Fee	12,386,562 30	
Other Deferred Debits	32,083,332 41	32,083,332 41

* Excludes:	$	Mcf
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990 00	2,930,000
	11,788,845 00	10,810,000

Total Assets and Other Debits	3,053,806,800.77	3,053,806,800.77

Louisville Gas and Electric Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,138,879,561.09
Common Stock	425,170,424.09	
Retained Earnings	671,274,440.27	
Common Stock Expense	(835,888.64)	
Paid-In Capital	60,000,000.00	
Other Comprehensive Income	(16,729,414.63)	
Bonds		534,304,000.00
Pollution Control Bonds - Net of Reacquired Bonds	534,304,000.00	
Long-term Notes Payable to Associated Companies	410,000,000.00	410,000,000.00
Short-term Notes Payable to Associated Companies		108,086,200.00
Money Pool Payable	108,086,200.00	
Accounts Payable		106,635,795.49
Regular	103,215,020.75	
Salaries and Wages Accrued	2,083,981.17	
Tax Collections - Payable	1,336,793.57	
Accounts Payable to Associated Companies		10,177,711.89
E.ON US Services/Kentucky Utilities Company	10,177,711.89	
Customers' Deposits	19,911,316.55	19,911,316.55
Taxes Accrued	11,035,882.29	11,035,882.29
Interest Accrued		11,457,379.55
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 Var%	27,343.75	
Trimble County 2000 Series A 08/01/00 Due 08/01/30 Var%	228,254.58	
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 Var%	4,913.63	
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 Var%	233,695.67	
Trimble County 2001 Series A 03/06/01 Due 09/01/26 Var%	285,628.01	
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 Var%	365,784.46	
Trimble County 2001 Series B 03/22/01 Due 11/01/27 Var%	365,784.77	
Trimble County 2002 Series A 10/23/02 Due 10/01/32 Var%	129,431.28	
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 Var%	77,290.66	
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 Var%	19,759.60	
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 Var%	24,455.60	
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 Var%	27,768.92	
Trimble County 2007 Series A 04/26/07 Due 06/01/33 Var%	919,999.98	
Interest Rate Swaps	333,540.94	
Fidelia	7,584,225.49	
Customers' Deposits	829,502.21	
Short-term Obligations under Capital Leases	341,988.62	341,988.62
Miscellaneous Current and Accrued Liabilities		12,032,189.65
Customer Overpayments	3,224,489.85	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	5,260,881.59	
Derivative Liabilities - Non-Hedging	(0.03)	
Postretirement Benefits - Current	3,061,339.00	
Other	235,479.24	

Louisville Gas and Electric Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Customers' Advances for Construction		10,730,003.85
Line Extensions		
Electric	807,830.41	
Gas	8,378,506.65	
Customer Advances - Arena	1,543,666.79	
Asset Retirement Obligations		30,047,914.20
Electric	22,137,261.26	
Gas	7,884,574.71	
Common	26,078.23	
Other Deferred Credits	20,943,851.27	20,943,851.27
Regulatory Liabilities		54,426,533.81
Asset Retirement Obligations		
Electric	231,830.24	
Gas	123,974.82	
Deferred Taxes		
Federal		
Electric	25,792,713.75	
Gas	1,770,696.50	
State		
Electric	18,484,585.00	
Gas	2,731,315.50	
MISO Schedule 10 Charges	5,291,418.00	
Investment Tax Credit		46,417,549.04
Job Development Credit		
Electric	32,030,430.14	
Gas	1,107,492.90	
Advanced Coal Credit	13,279,626.00	
Accumulated Deferred Income Taxes		398,795,538.80
Federal		
Electric	289,631,425.29	
Gas	51,350,987.50	
Common	(1.00)	
State		
Electric	49,474,892.34	
Gas	8,338,234.67	
Miscellaneous Long-term Liabilities		34,210,904.38
Workers' Compensation	5,581,407.38	
Uncertain Tax Positions	29,044.00	
Long-term Derivative Liabilities - SFAS 133	28,600,453.00	
Accumulated Provision for Benefits		95,372,480.29
Pension Payable	13,347,081.00	
Postretirement Benefits - SFAS 106	78,474,689.29	
Post Employment Benefits Payable	3,762,588.00	
Post Employment Medicare Subsidy	(211,878.00)	
Total Liabilities and Other Credits	3,053,806,800.77	3,053,806,800.77

Louisville Gas and Electric Company
Statement of Cash Flows
March 31, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	21,313,050.07	31,447,424.93
Items not requiring (providing) cash currently:		
Depreciation	30,111,478.36	29,354,599.68
Amortization	1,306,066.27	1,574,707.10
Deferred income taxes - net	(1,042,120.43)	2,959,680.07
Investment tax credit - net	318,586.84	1,605,962.60
Other	(4,313,653.67)	(1,012,057.70)
Change in receivables	4,206,748.90	29,330,867.62
Change in inventory	67,064,841.36	48,521,608.95
Change in allowance inventory	673.20	1,125.45
Change in payables and accrued expenses	3,251,963.14	(42,903,791.02)
Change in other regulatory assets	564,303.20	(808,371.87)
Change in other regulatory liabilities	(689,003.81)	(437,469.81)
Change in other deferred debits	2,711,301.44	(3,669,726.61)
Change in other deferred credits	(19,918,402.14)	(14,960,092.26)
Other	557,691.71	4,162,493.75
Net cash provided (used) by operating activities	105,443,524.44	85,166,960.88
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(60,529,052.28)	(32,323,996.12)
Gross additions to common utility plant - construction expenditures	(7,018,001.36)	(1,895,993.72)
Change in long-term investments	385,022.62	345,371.69
Change in restricted cash	3,606,272.20	(7,084,886.26)
Net cash provided (used) by investing activities	(63,555,758.82)	(40,959,504.41)
Cash Flows from Financing Activities		
Net increase in short-term debt	29,845,000.00	-
Payments for reacquisition of long-term debt	(40,000,000.00)	-
Net increase in derivative liabilities	7,107,517.00	-
Net decrease in short-term debt	-	(43,707,000.00)
Net decrease in short-term capital lease obligations	(63,449.07)	-
Net decrease in long-term capital lease obligations	(23,649.00)	-
Dividends on preferred stock	-	(906,341.10)
Dividends on common stock	(40,000,000.00)	-
Net cash provided (used) by financing activities	(43,134,581.07)	(44,613,341.10)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,246,815.45)	(405,884.63)
Cash and Cash Equivalents at Beginning of Period	4,348,418.88	6,608,687.22
Cash and Cash Equivalents at End of Period	3,101,603.43	6,202,802.59

Louisville Gas and Electric Company
Analysis of Interest Charges
March 31, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
1992 Series A Variable	-	97,025.75	-	281,933.16	68,549.25	1,128,125.77
1992 Series A Variable TC	-	185,852.06	-	538,882.20	131,260.51	2,148,139.70
1993 Series A Variable Rate	-	109,052.50	-	316,163.51	76,721.59	1,271,790.47
1995 Series A (5.90%)	-	-	-	-	-	-
Jefferson County 2000 Series A due May 1, 2027	185,329.85	75,590.28	375,607.62	226,423.62	1,087,065.94	902,395.88
Trimble County 2000 Series A due Aug. 1, 2030	264,384.92	259,102.41	863,267.27	749,158.51	3,491,556.26	3,093,237.59
Jefferson County 2001 Series A due Sep. 1, 2027	29,262.31	31,266.27	97,147.15	91,399.11	407,558.92	369,113.14
Jefferson County 2001 Series A due Sep. 1, 2026	61,394.62	69,558.90	180,222.92	199,837.00	803,371.03	807,867.13
Trimble County 2001 Series A due Sep. 1, 2026	75,037.87	85,016.45	220,272.45	244,245.21	981,897.87	987,393.16
Jefferson County 2001 Series B due Nov. 1, 2027	96,095.92	108,931.51	282,088.04	312,602.75	1,254,343.42	1,269,052.06
Trimble County 2001 Series B due Nov. 1, 2027	96,095.92	108,931.51	282,088.04	312,602.75	1,251,754.68	1,269,052.05
Trimble County 2002 Series A due Oct. 1, 2032	149,922.29	129,104.42	465,555.18	371,988.54	1,712,959.65	1,492,645.73
Louisville Metro 2003 Series A due Oct. 1, 2033	490,357.33	391,288.90	1,380,028.45	1,157,333.36	4,992,881.79	4,574,453.36
Louisville Metro 2005 Series A due Feb. 1, 2035	203,881.79	120,544.44	515,270.69	349,411.10	1,624,698.48	1,401,883.28
Louisville Metro 2007 Series A due Jun. 1, 2033	193,595.01	-	475,651.95	-	1,264,965.36	-
Louisville Metro 2007 Series B due Jun. 1, 2033	227,323.57	-	530,341.79	-	1,430,845.81	-
Trimble County 2007 Series A due Jun. 1, 2033	230,000.00	-	682,333.33	-	2,568,333.37	-
Interest Rate Swaps	333,540.95	121,473.25	975,115.23	420,277.00	2,147,559.53	1,664,226.60
Notes/Debentures	6,557.00	-	16,437.00	-	3,452,692.41	-
Fidelia	1,820,774.99	911,875.01	5,462,324.97	2,735,625.03	19,820,425.50	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	150,138.87	-	345,972.23	0.02	1,245,581.61
Total	4,463,554.34	2,954,752.53	12,803,752.08	8,653,855.08	48,569,441.39	34,567,457.65
Amortization of Debt Expense - Net						
Amortization of Debt Expense	31,134.08	34,054.02	99,506.24	102,162.06	398,411.80	408,648.24
Amortization of Loss on Reacquired Debt	89,753.39	85,136.04	263,156.07	255,408.12	1,043,153.90	1,021,632.21
Total	120,887.47	119,190.06	362,662.31	357,570.18	1,441,565.70	1,430,280.45
Other Interest Charges						
Customers' Deposits	87,426.40	78,415.30	256,203.43	231,716.55	993,527.76	916,498.55
Federal Income Tax Deficiencies	-	-	-	(1,058,734.00)	(0.31)	383,125.99
Other Tax Deficiencies	1,111.00	1,791.71	1,111.00	1,791.71	(500.41)	1,791.71
Gas Refunds	-	475.76	-	1,427.28	1,020.36	3,806.08
Interest on Debt to Associated Companies	111,942.89	74,681.05	617,617.04	585,165.71	4,109,924.38	1,490,150.19
Other Interest Expense	-	7,942.11	-	7,942.11	639.45	7,942.11
Total	200,480.29	163,305.93	874,931.47	(230,690.64)	5,104,611.23	2,803,314.63
Total Interest	4,784,922.10	3,237,248.52	14,041,345.86	8,780,734.62	55,115,618.32	38,801,052.73

Louisville Gas and Electric Company
Analysis of Taxes Charged
March 31, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,352,184.77	1,500,537.00	4,056,554.31	3,862,085.00
Unemployment	13,748.89	28,896.17	30,061.50	61,849.84
FICA	535,676.64	537,487.50	1,627,069.45	1,543,081.37
Public Service Commission Fee	161,615.66	158,705.95	484,846.98	476,117.85
Federal Income	1,110,441.06	(1,081,277.42)	9,707,267.40	11,167,503.13
State Income	(169,900.54)	(561,551.60)	1,467,590.18	2,160,399.64
Miscellaneous	90,927.39	-	97,163.76	-
Total Charged to Operating Expense	3,094,693.87	582,797.60	17,470,553.58	19,271,036.83
Taxes Charged to Other Accounts	6,022,605.98	(1,255,639.44)	6,684,971.11	(661,051.14)
Taxes Accrued on Intercompany Accounts	(172,275.41)	(218,616.54)	(538,913.90)	(621,704.85)
Total Taxes Charged	8,945,024.44	(891,458.38)	23,616,610.79	17,988,280.84

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	9,962,060.51	4,116,249.00	9,545,200.03	4,533,109.48
State Unemployment	21,016.80	12,662.73	1,055.42	32,624.11
Federal Unemployment	32,531.25	1,539.53	809.45	33,261.33
FICA	618,958.69	1,448,986.65	1,861,568.78	206,376.56
Federal Income	(6,107,469.91)	14,773,390.20	3,436,420.91	5,229,499.38
State Income	(832,671.91)	2,012,696.35	832,671.91	347,352.53
Kentucky Sales and Use Tax	527,167.51	1,197,546.57	1,071,055.18	653,658.90
Miscellaneous	(0.00)	53,539.76	53,539.76	(0.00)
Totals	4,221,592.94	23,616,610.79	16,802,321.44	11,035,882.29

Louisville Gas and Electric Company
Summary of Utility Plant - Utility Plant in Service
March 31, 2008

Utility Plant in Service	Net Balance First of Year	Additions	Retirements	Transfers/ Adjustments	Net Additions	Balance to Date
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,957,341,584.73	18,211,654.10	(1,235,775.98)	-	16,975,878.12	1,974,317,462.85
Hydro	29,738,481.51	-	-	-	-	29,738,481.51
Other Production	225,593,229.05	2,943.40	-	-	2,943.40	225,596,172.45
Transmission	254,545,457.73	606,585.18	(60,974.36)	-	545,610.82	255,091,068.55
Distribution	762,409,249.99	12,923,287.93	(37,892.50)	-	12,885,395.43	775,294,645.42
General	16,648,246.38	6,380.50	-	-	6,380.50	16,654,626.88
Total Electric	3,246,278,589.68	31,750,851.11	(1,334,642.84)	-	30,416,208.27	3,276,694,797.95
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	62,254,077.12	57,966.45	(462.83)	-	57,503.62	62,311,580.74
Transmission	12,901,908.09	-	-	-	-	12,901,908.09
Distribution	464,243,423.53	8,152,674.45	(2,043.77)	-	8,150,630.68	472,394,054.21
General	9,033,095.77	5,377.09	-	-	5,377.09	9,038,472.86
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	550,573,682.00	8,216,017.99	(2,506.60)	-	8,213,511.39	558,787,193.39
Common						
Intangible	28,321,223.19	598,072.43	-	-	598,072.43	28,919,295.62
General	149,510,912.37	856,380.86	-	-	856,380.86	150,367,293.23
Total Common	177,832,135.56	1,454,453.29	-	-	1,454,453.29	179,286,588.85
Total Plant in Service	3,974,684,407.24	41,421,322.39	(1,337,149.44)	-	40,084,172.95	4,014,768,580.19
Construction Work In Progress						
Electric	253,332,706.20	1,387,572.78	-	-	1,387,572.78	254,720,278.98
Gas	62,549,383.39	(2,159,703.96)	-	-	(2,159,703.96)	60,389,679.43
Common	28,559,694.35	5,563,548.07	-	-	5,563,548.07	34,123,242.42
Total Construction Work In Progress	344,441,783.94	4,791,416.89	-	-	4,791,416.89	349,233,200.83
Total Utility Plant at Original Cost	4,319,126,191.18	46,212,739.28	(1,337,149.44)	-	44,875,589.84	4,364,001,781.02

Louisville Gas anu ⊥lectric Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
March 31, 2008

Reserve for Depreciation of Utility	Net Balance First of Year	Accruals	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Electric	(1,378,260,021.25)	(21,283,272.37)	1,334,642.84	-	-	-	-	-	(1,398,208,650.78)
Electric - ARO Steam	(2,207,905.66)	(40,671.05)	-	-	-	-	-	-	(2,248,576.71)
Electric - ARO Hydro	(16,818.08)	(123.66)	-	-	-	-	-	-	(16,941.74)
Electric - ARO Other Production	(114,837.08)	(844.38)	-	-	-	-	-	-	(115,681.46)
Electric - ARO Transmission	(2,336.94)	(44.29)	-	-	-	-	-	-	(2,381.23)
Electric - ARO Distribution	(12,367.53)	(91.46)	-	-	-	-	-	-	(12,458.99)
Gas	(155,853,439.88)	(2,830,464.13)	2,506.60	-	-	-	-	-	(158,681,397.41)
Gas - ARO Underground Storage	(401,123.53)	(2,241.61)	-	-	-	-	-	-	(403,365.14)
Gas - ARO Distribution	(19,162.71)	(30.21)	-	-	-	-	-	-	(19,192.92)
Common - ARO	(1,165.28)	(8.58)	-	-	-	-	-	-	(1,173.86)
Common	(62,470,548.01)	(1,590,189.36)	-	-	-	-	-	-	(64,060,737.37)
Total Life Reserves for Depreciation of Utility Plant in Service	(1,599,359,725.95)	(25,747,981.10)	1,337,149.44	-	-	-	-	-	(1,623,770,557.61)
Salvage Reserves									
Steam Production	(52,156,645.28)	(1,455,551.99)	-	-	-	357,035.96	(103,285.00)	-	(53,358,446.31)
Hydro Production	356,090.84	-	-	-	-	-	-	-	356,090.84
Other Production	(2,090,919.89)	-	-	-	-	-	-	-	(2,090,919.89)
Transmission	(16,955,752.03)	(280,104.92)	-	-	-	311,200.15	-	-	(16,924,656.80)
Distribution	(136,112,169.74)	(1,546,518.85)	-	-	-	139,580.69	-	-	(137,519,107.90)
Distribution General	112,862.90	5,663.82	-	-	-	-	-	-	118,526.72
Gas Stored Underground	47,228.50	(55,657.55)	-	-	-	-	-	-	(8,429.05)
Gas Transmission	(2,748,634.29)	(25,996.56)	-	-	-	-	-	-	(2,774,630.85)
Gas Distribution	(51,376,946.18)	(1,155,860.38)	-	-	-	984,538.44	(462.36)	-	(51,548,730.48)
Gas General	190,825.93	10,822.61	-	-	-	-	-	-	201,648.54
Common	(186,487.96)	(16,958.59)	-	-	-	-	-	-	(203,446.55)
Total Salvage Reserves for Depreciation of Utility Plant in Service	(260,920,547.20)	(4,520,162.41)	-	-	-	1,792,355.24	(103,747.36)	-	(263,752,101.73)
Total Reserves									
Electric	(1,587,460,819.74)	(24,601,559.15)	1,334,642.84	-	-	807,816.80	(103,285.00)	-	(1,610,023,204.25)
Gas	(210,161,252.16)	(4,059,427.83)	2,506.60	-	-	984,538.44	(462.36)	-	(213,234,097.31)
Common	(62,658,201.25)	(1,607,156.53)	-	-	-	-	-	-	(64,265,357.78)
Total Reserve for Depreciation of Utility Plant in Service	(1,860,280,273.15)	(30,268,143.51)	1,337,149.44	-	-	1,792,355.24	(103,747.36)	-	(1,887,522,659.34)
Retirement Work In Progress									
108001									
Electric	1,447,528.21	-	-	-	(74,350.97)	(21,555.45)	-	(17,793.50)	1,333,828.29
Gas	108,221.49	-	-	-	(1,189.88)	-	-	-	107,031.61
Common	(175.35)	-	-	-	-	-	-	175.35	-
Total 108001 RWIP	1,555,574.35	-	-	-	(75,540.85)	(21,555.45)	-	(17,618.15)	1,440,859.90
108901									
Electric	12,353,182.04	-	-	-	(685,992.95)	989,092.87	(67,058.56)	(186,940.22)	12,402,283.18
Gas	3,887,367.55	-	-	-	(927,074.08)	368,722.32	-	-	3,329,015.79
Common	190,065.66	-	-	-	-	(65,047.19)	(25,897.00)	(175.35)	98,946.12
Total 108901 RWIP	16,430,615.25	-	-	-	(1,613,067.03)	1,292,768.00	(92,955.56)	(187,115.57)	15,830,245.09
Total RWIP	17,986,189.60	-	-	-	(1,688,607.88)	1,271,212.55	(92,955.56)	(204,733.72)	17,271,104.99
Year to Date	(1,842,294,083.55)	(30,268,143.51)	1,337,149.44	-	(1,688,607.88)	3,063,567.79	(196,702.92)	(204,733.72)	(1,870,251,554.35)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(17,552,729.72)	(1,306,066.27)	-	-	-	-	-	-	(18,858,795.99)
Total Reserve for Amortization of Utility Plant in Service	(17,553,629.72)	(1,306,066.27)	-	-	-	-	-	-	(18,859,695.99)
Total Reserve for Depreciation and Amortization - Utility Plant in Service	(1,859,847,713.27)	(31,574,209.78)	1,337,149.44	-	(1,688,607.88)	3,063,567.79	(196,702.92)	(204,733.72)	(1,889,111,250.34)
Utility Plant at Original Cost Less Reserve for Depreciation and Amortization	2,459,278,477.91								2,474,890,530.68

LG&E Monthly Report to KPSC – February 29, 2008

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

February 29, 2008

Prepared by Regulatory Accounting and Reporting

Louisville Gas and Electric Company
Comparative Statement of Income
February 29, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	70,497,462.18	73,880,338.40	(3,382,876.22)	(4.58)
Gas Operating Revenues	62,690,756.67	60,196,028.85	2,494,727.82	4.14
Total Operating Revenues	133,188,218.85	134,076,367.25	(888,148.40)	(0.66)
Fuel for Electric Generation	25,036,232.31	25,450,891.78	(414,659.47)	(1.63)
Power Purchased	5,672,073.29	8,405,107.08	(2,733,033.79)	(32.52)
Gas Supply Expenses	54,044,417.19	49,356,114.96	4,688,302.23	9.50
Other Operation Expenses	16,243,346.12	15,607,845.78	635,500.34	4.07
Maintenance	9,932,985.79	5,397,414.55	4,535,571.24	84.03
Depreciation	9,930,845.79	9,813,815.76	117,030.03	1.19
Amortization Expense	417,772.09	489,196.01	(71,423.92)	(14.60)
Regulatory Credits	(172,149.01)	(163,348.89)	(8,800.12)	5.39
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	2,303,303.82	5,322,718.08	(3,019,414.26)	(56.73)
State Income - Estimated	438,724.52	1,182,826.24	(744,101.72)	(62.91)
Property and Other	2,057,398.33	1,815,576.42	241,821.91	13.32
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(322,577.00)	(329,242.00)	6,665.00	(2.02)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	157,463.21	149,164.93	8,298.28	5.56
Total Operating Expenses	125,739,836.45	122,498,080.70	3,241,755.75	2.65
Net Operating Income	7,448,382.40	11,578,286.55	(4,129,904.15)	(35.67)
Other Income Less Deductions	400,184.95	334,848.21	65,336.74	19.51
Income Before Interest Charges	7,848,567.35	11,913,134.76	(4,064,567.41)	(34.12)
Interest on Long Term Debt	4,330,666.90	2,783,453.17	1,547,213.73	55.59
Amortization of Debt Expense - Net	120,887.42	119,190.06	1,697.36	1.42
Other Interest Expenses	244,166.45	(740,429.65)	984,596.10	(132.98)
Total Interest Charges	4,695,720.77	2,162,213.58	2,533,507.19	117.17
Net Income	3,152,846.58	9,750,921.18	(6,598,074.60)	(67.67)
Preferred Dividend Requirements	-	297,946.55	(297,946.55)	(100.00)
Earnings Available for Common	3,152,846.58	9,452,974.63	(6,300,128.05)	(66.65)

Louisville Gas and Electric Company
Comparative Statement of Income
February 29, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	150,587,771.26	153,956,763.35	(3,368,992.09)	(2.19)
Gas Operating Revenues	144,304,376.11	121,957,594.38	22,346,781.73	18.32
Total Operating Revenues	294,892,147.37	275,914,357.73	18,977,789.64	6.88
Fuel for Electric Generation	53,850,252.77	52,266,683.40	1,583,569.37	3.03
Power Purchased	15,406,442.86	20,100,145.65	(4,693,702.79)	(23.35)
Gas Supply Expenses	120,401,387.04	98,065,985.52	22,335,401.52	22.78
Other Operation Expenses	32,182,483.33	29,572,945.81	2,609,537.52	8.82
Maintenance	15,969,464.91	9,909,646.95	6,059,817.96	61.15
Depreciation	20,038,956.68	19,520,977.59	517,979.09	2.65
Amortization Expense	844,873.32	978,852.79	(133,979.47)	(13.69)
Regulatory Credits	(344,298.04)	(310,474.56)	(33,823.48)	10.89
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	8,596,826.34	12,248,780.55	(3,651,954.21)	(29.81)
State Income - Estimated	1,637,490.72	2,721,951.24	(1,084,460.52)	(39.84)
Property and Other	4,141,542.65	3,717,507.44	424,035.21	11.41
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(645,154.00)	(658,484.00)	13,330.00	(2.02)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	314,926.42	297,506.06	17,420.36	5.86
Total Operating Expenses	272,395,195.00	248,432,024.44	23,963,170.56	9.65
Net Operating Income	22,496,952.37	27,482,333.29	(4,985,380.92)	(18.14)
Other Income Less Deductions	(351,842.45)	(1,065,112.06)	713,269.61	(66.97)
Income Before Interest Charges	22,145,109.92	26,417,221.23	(4,272,111.31)	(16.17)
Interest on Long Term Debt	8,340,197.74	5,699,102.55	2,641,095.19	46.34
Amortization of Debt Expense - Net	241,774.84	238,380.12	3,394.72	1.42
Other Interest Expenses	674,451.18	(393,996.57)	1,068,447.75	(271.18)
Total Interest Charges	9,256,423.76	5,543,486.10	3,712,937.66	66.98
Net Income	12,888,686.16	20,873,735.13	(7,985,048.97)	(38.25)
Preferred Dividend Requirements	-	595,893.10	(595,893.10)	(100.00)
Earnings Available for Common	12,888,686.16	20,277,842.03	(7,389,155.87)	(36.44)

Louisville Gas and Electric Company
Comparative Statement of Income
February 29, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	929,086,575.18	949,162,038.51	(20,075,463.33)	(2.12)
Gas Operating Revenues	375,028,510.76	373,013,295.02	2,015,215.74	0.54
Total Operating Revenues	1,304,115,085.94	1,322,175,333.53	(18,060,247.59)	(1.37)
Fuel for Electric Generation	318,847,130.54	301,371,611.72	17,475,518.82	5.80
Power Purchased	77,643,345.32	111,788,885.86	(34,145,540.54)	(30.54)
Gas Supply Expenses	275,927,620.65	276,176,791.86	(249,171.21)	(0.09)
Other Operation Expenses	175,762,193.71	184,932,219.19	(9,170,025.48)	(4.96)
Maintenance	88,601,810.81	79,333,582.75	9,268,228.06	11.68
Depreciation	120,091,043.76	118,129,756.47	1,961,287.29	1.66
Amortization Expense	6,065,982.76	5,923,213.55	142,769.21	2.41
Regulatory Credits	(1,974,567.52)	(2,274,657.63)	300,090.11	(13.19)
Taxes				
Federal Income	34,624,584.99	62,654,793.56	(28,030,208.57)	(44.74)
State Income	7,620,508.53	11,361,385.20	(3,740,876.67)	(32.93)
Deferred Federal Income - Net	9,475,870.93	(7,024,761.20)	16,500,632.13	(234.89)
Deferred State Income - Net	1,500,153.46	(1,213,123.50)	2,713,276.96	(223.66)
Federal Income - Estimated	(3,651,954.21)	841,886.04	(4,493,840.25)	(533.78)
State Income - Estimated	(1,084,460.52)	187,085.79	(1,271,546.31)	(679.66)
Property and Other	22,320,698.69	21,751,759.84	568,938.85	2.62
Investment Tax Credit	8,979,626.00	3,000,000.00	5,979,626.00	199.32
Amortization of Investment Tax Credit	(3,937,570.94)	(4,009,867.44)	72,296.50	(1.80)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,798,337.72	2,088,055.13	(289,717.41)	(13.88)
Total Operating Expenses	1,138,057,261.99	1,164,014,011.12	(25,956,749.13)	(2.23)
Net Operating Income	166,057,823.95	158,161,322.41	7,896,501.54	4.99
Other Income Less Deductions	(91,562.96)	(3,512,707.86)	3,421,144.90	(97.39)
Income Before Interest Charges	165,966,260.99	154,648,614.55	11,317,646.44	7.32
Interest on Long Term Debt	47,060,639.58	34,391,352.73	12,669,286.85	36.84
Amortization of Debt Expense - Net	1,439,868.29	1,430,280.42	9,587.87	0.67
Other Interest Expenses	5,067,436.87	2,881,838.28	2,185,598.59	75.84
Total Interest Charges	53,567,944.74	38,703,471.43	14,864,473.31	38.41
Net Income	112,398,316.25	115,945,143.12	(3,546,826.87)	(3.06)
Preferred Dividend Requirements	345,743.14	3,722,029.80	(3,376,286.66)	(90.71)
Earnings Available for Common	112,052,573.11	112,223,113.32	(170,540.21)	(0.15)

Louisville Gas and Electric Company
Analysis of Retained Earnings
February 29, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Balance at Beginning of Period	699,697,229.78	649,929,597.17	689,961,390.20	639,104,729.77	659,382,571.80	642,159,458.48
Add:						
Net Income for Period	3,152,846.58	9,750,921.18	12,888,686.16	20,873,735.13	112,398,316.25	115,945,143.12
FIN 48 Adjustment	-	-	-	-	202,186.00	-
Deduct:						
Adjustment to Retained Earnings	-	-	-	-	3,787,254.55	-
Preferred Dividends						
$25 Par Value						
5% Series	-	-	-	-	137,409.80	1,075,363.14
Without Par Value						
Auction Rate	-	-	-	-	208,333.34	2,646,666.66
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,613.22	-	179,226.45	-	-
Without Par Value						
Auction Rate	-	208,333.33	-	416,666.65	-	-
Common Dividends						
Common Stock Without Par Value	-	-	-	-	65,000,000.00	95,000,000.00
Balance at End of Period	702,850,076.36	659,382,571.80	702,850,076.36	659,382,571.80	702,850,076.36	659,382,571.80

Louisville Gas and Electric Company
Comparative Balance Sheets as of February 29, 2008 and February 28, 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	4,352,224,585.33	4,138,547,155.83
Less Reserves for Depreciation & Amortization	1,879,128,127.57	1,785,366,318.50
Total	2,473,096,457.76	2,353,180,837.33
Investments - at Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	13,457,300.44	3,121,994.42
Other	14,152,203.00	-
Total	28,215,668.64	3,733,617.89
Current and Accrued Assets		
Cash	8,000,648.77	7,760,093.82
Special Deposits	2,353,638.13	22,612,136.20
Temporary Cash Investments	36,147.56	5,503.29
Accounts Receivable-Less Reserve	193,810,776.26	169,370,578.63
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	8,158,985.37	22,296,036.99
Materials & Supplies-At Average Cost		
Fuel	37,806,806.06	34,494,292.48
Plant Materials & Operating Supplies	26,604,707.18	25,117,644.19
Stores Expense	4,550,706.09	4,375,470.69
Gas Stored Underground	37,472,786.86	41,638,682.99
Allowance Inventory	11,016.67	14,654.20
Prepayments	5,479,223.36	5,076,865.75
Miscellaneous Current & Accrued Assets	12,813.18	923,672.48
Total	324,298,255.49	333,685,631.71
Deferred Debits and Other		
Unamortized Debt Expense	9,829,757.98	8,063,936.84
Unamortized Loss on Bonds	18,926,828.13	19,453,001.03
Accumulated Deferred Income Taxes	53,391,727.03	56,735,025.58
Deferred Regulatory Assets	151,519,144.63	164,112,461.60
Other Deferred Debits	18,493,763.78	35,774,976.73
Total	252,161,221.55	284,139,401.78
Total Assets and Other Debits	3,077,771,603.44	2,974,739,488.71

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	60,000,000.00	40,000,000.00
Other Comprehensive Income	(15,063,498.00)	(10,584,536.00)
Retained Earnings	702,850,076.36	659,382,571.80
Total Common Equity	1,172,121,113.81	1,113,132,571.25
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	410,000,000.00	225,000,000.00
Total Capitalization	2,156,425,113.81	2,001,611,165.30
Current and Accrued Liabilities		
Long-term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	46,189,200.00	-
Notes Payable to Associated Companies	-	58,398,000.00
Notes Payable	-	-
Accounts Payable	115,224,238.95	106,554,236.75
Accounts Payable to Associated Companies	14,326,007.49	51,444,733.91
Customer Deposits	19,647,757.55	18,388,205.05
Taxes Accrued	15,917,145.76	41,780,276.43
Interest Accrued	9,345,351.72	4,913,723.84
Dividends Declared	-	595,891.69
ST Obligations Under Capital Leases	382,051.84	-
Misc. Current & Accrued Liabilities	11,087,695.35	8,832,132.66
Total	232,119,448.66	292,157,200.33
Deferred Credits and Other		
LT Obligations Under Capital Leases	-	-
Accumulated Deferred Income Taxes	398,118,545.69	388,683,652.65
Investment Tax Credit	45,453,808.20	40,411,753.14
Regulatory Liabilities	55,685,953.08	55,940,986.32
Customer Advances for Construction	14,848,047.29	20,994,560.33
Asset Retirement Obligations	29,895,387.98	28,717,557.74
Other Deferred Credits	41,436,114.02	41,166,550.27
Misc. Long-term Liabilities	6,203,202.79	5,801,957.00
Accum Provision for Post-Retirement Benefits	97,585,981.92	99,254,105.63
Total	689,227,040.97	680,971,123.08
Total Liabilities and Other Credits	3,077,771,603.44	2,974,739,488.71

Louisville Gas and Electric Company
Statement of Capitalization and Short-term Debt
February 29, 2008

	Authorized Shares	Issued & Outstanding Shares	Issued & Outstanding Amount	Percent of Total Capital & S/T Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			60,000,000.00		
Other Comprehensive Income			(15,063,498.00)		
Retained Earnings			702,850,076.36		
Total Common Equity			1,172,121,113.81	53.22	54.36
Long-term Debt					
Pollution Control Bonds	Not Limited				
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
Trimble County 2000 Series A 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
Trimble County 2001 Series A 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
Trimble County 2001 Series B 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
Trimble County 2002 Series A 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
Trimble County 2007 Series A 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.07	26.63
Long-term Notes Payable to Associated Companies			410,000,000.00	18.61	19.01
Total Capitalization			2,156,425,113.81	97.90	100.00
Short-term Notes Payable to Associated Companies			46,189,200.00	2.10	
Total Capitalization and Short-term Debt			2,202,614,313.81	100.00	

Louisville Gas and Electric Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Utility Plant		
At Original Cost	4.352.224,585 33	4,352,224,585 33
Reserves for Depreciation and Amortization		(1.879,128,127 57)
Electric	(1.588,479,966 35)	
Gas	(208,607,044 19)	
Common	(63,642,613 99)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(18,397,603 04)	
Investments - at Cost		28,215,668 64
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	13,457,300 44	
Prepaid Pension	14,152,203 00	
Cash	8,000,648 77	8,000,648 77
Other Special Deposits		2,353,638 13
Margin Account	2,043,048 40	
MAN Margin Call	310,589 73	
Temporary Cash Investments		36,147 56
Other	36,147 56	
Accounts Receivable - Less Reserve		193,810,776 26
Working Funds	21.280 00	
Customers-Active	116,535,027 68	
Wholesale Sales	3,920,177 89	
Transmission Sales	259,651 50	
Unbilled Revenues	58,731,000 00	
Employee Computer Loans	99,366 43	
Damage Claims	617,590 94	
RAR Settlements	1,038,234 00	
Tax Refunds	1,860,522 77	
IMEA	2.415,947 30	
IMPA	2,514,955 14	
Other	7,271,981 13	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(856,425 00)	
Accrual	(333,635 38)	
Charged Off	828,453 24	
Recoveries	(494.817 86)	
A/R Miscellaneous	(1,081,869 00)	
LEM Reserve	(21,905 77)	
Interest and Dividends Receivable	34,088 18	
Rents Receivable	451,153 07	
Accounts Receivable from Associated Companies		8,158,985 37
E ON US Services/Kentucky Utilities Company	8,158,985 37	
Fuel		37,806,806 06
Coal 965,278 94 Tons @ $36 77; MMBTU 22,008,712 32 @ 161 25¢	35,489,818 65	
Fuel Oil 227,526 Gallons @ 224 15¢	509,994 96	
Gas Pipeline 191,747 Mcf @ $9.42	1,806,992 45	

Louisville Gas and Electric Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Plant Materials and Operating Supplies		26,604,707 18
Regular Materials and Supplies	26,353,604 27	
Limestone 35,248 91 Tons @ $7 12	251,102 91	
Stores Expense		4,550,706 09
Stores Expense Undistributed	4,550,706 09	
Gas Stored Underground - Current		37,472,786 86
Gas St Underground*5,183.586 Mcf (14 73 psia) @ $7.23	37,472,786 86	
Allowance Inventory		11,016 67
Allowance Inventory	11,016 67	
Prepayments		5,479,223 36
Insurance	2,826,682 72	
Taxes	646,462 59	
Franchises	330,789 80	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	4,003 18	
Other	1,301,285 04	
Miscellaneous Current Assets		12,813 18
Derivative Asset - Non-Hedging	12,813 18	
Unamortized Debt Expense		9,829,757 98
Jefferson County 2000 Series A due May 1. 2027	458,026 49	
Trimble County 2000 Series A due Aug 1, 2030	858,050 99	
Jefferson County 2001 Series A due Sep 1, 2027	386,862 00	
Jefferson County 2001 Series A due Sep 1, 2026	182.636 36	
Trimble County 2001 Series A due Sep 1, 2026	198,659 23	
Jefferson County 2001 Series B due Nov 1, 2027	215,283 02	
Trimble County 2001 Series B due Nov 1, 2027	215,316.67	
Trimble County 2002 Series A due Oct 1, 2032	905,538.48	
Louisville Metro 2003 Series A due Oct 1, 2033	3,005,492 19	
Louisville Metro 2005 Series A due Feb 1, 2035	985,894.40	
Louisville Metro 2007 Series A due Jun 1, 2033	627,914 17	
Louisville Metro 2007 Series B due Jun 1, 2033	590,609 62	
Trimble County 2007 Series A due Jun 1, 2033	1.199,474.36	
Unamortized Loss on Bonds		18,926.828 13
Refinanced and Called Bonds	18.926,828 13	
Other Deferred Debits	18,493,763 78	18,493,763 78
Deferred Regulatory Assets		151,519,144 63
Asset Retirement Obligations		
Electric	19,228,207 69	
Gas	5,273.101 44	
Common	23,389 05	
Pension & Postretirement Benefits	109,983,623 00	
ECR Ash Hauling	3,871,807 05	
MISO Exit Fee	13,139,016.40	
Accumulated Deferred Income Taxes		53,391,727 03
Federal		
Electric	37,418,076 79	
Gas	7,491,223 98	
State		
Electric	7,279,957 83	
Gas	1,202,468 43	
Total Assets and Other Debits	3,077,771,603.44	3,077,771,603.44

* Excludes:

	$	Mcf
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845 00	10,810,000

Louisville Gas and Electric Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Common Equity		1,172,121,113.81
Common Stock	425,170,424.09	
Retained Earnings	702,850,076.36	
Common Stock Expense	(835,888.64)	
Paid-In Capital	60,000,000.00	
Other Comprehensive Income	(15,063,498.00)	
Bonds		574,304,000.00
Pollution Control Bonds	574,304,000.00	
Long-term Notes Payable to Associated Companies	410,000,000.00	410,000,000.00
Short-term Notes Payable to Associated Companies		46,189,200.00
Money Pool Payable	46,189,200.00	
Accounts Payable		115,224,238.95
Regular	112,247,316.84	
Salaries and Wages Accrued	1,376,821.12	
Tax Collections - Payable	1,600,100.99	
Accounts Payable to Associated Companies		14,326,007.49
E.ON US Services/Kentucky Utilities Company	14,326,007.49	
Customers' Deposits	19,647,757.55	19,647,757.55
Taxes Accrued	15,917,145.76	15,917,145.76
Interest Accrued		9,345,351.72
Jefferson County 2000 Series A due May 1, 2027	54,687.50	
Trimble County 2000 Series A due Aug. 1, 2030	280,010.24	
Jefferson County 2001 Series A due Sep. 1, 2027	4,058.43	
Jefferson County 2001 Series A due Sep. 1, 2026	172,301.05	
Trimble County 2001 Series A due Sep. 1, 2026	210,590.14	
Jefferson County 2001 Series B due Nov. 1, 2027	269,688.54	
Trimble County 2001 Series B due Nov. 1, 2027	269,688.85	
Trimble County 2002 Series A due Oct. 1, 2032	158,805.11	
Louisville Metro 2003 Series A due Oct. 1, 2033	165,226.66	
Louisville Metro 2005 Series A due Feb. 1, 2035	47,111.14	
Louisville Metro 2007 Series A due Jun. 1, 2033	6,458.37	
Louisville Metro 2007 Series B due Jun. 1, 2033	7,582.70	
Trimble County 2007 Series A due Jun. 1, 2033	689,999.98	
Interest Rate Swaps	428,560.97	
Fidelia	5,763,450.50	
Customers' Deposits	817,131.54	
Short-term Obligations under Capital Leases	382,051.84	382,051.84
Miscellaneous Current and Accrued Liabilities		11,087,695.35
Customer Overpayments	2,752,809.81	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,682,762.12	
Derivative Liability - Non-Hedging	6,473.45	
Postretirement Benefits - Current	3,061,339.00	
Other	334,310.97	

Louisville Gas and Electric Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Customers' Advances for Construction		14,848,047.29
Line Extensions		
Electric	807,830.41	
Gas	8,282,013.28	
Customer Advances - Arena	5,758,203.60	
Asset Retirement Obligations		29,895,387.98
Electric	22,021,751.62	
Gas	7,847,683.15	
Common	25,953.21	
Other Deferred Credits	41,436,114.02	41,436,114.02
Regulatory Liabilities		55,685,953.08
Asset Retirement Obligations		
Electric	229,710.17	
Gas	119,383.16	
Deferred Taxes		
Federal		
Electric	26,900,418.75	
Gas	1,984,311.50	
State		
Electric	18,695,556.00	
Gas	2,743,651.50	
MISO Schedule 10 Charges	5,012,922.00	
Investment Tax Credit		45,453,808.20
Job Development Credit		
Electric	32,352,758.25	
Gas	1,121,423.95	
Advanced Coal Credit	11,979,626.00	
Accumulated Deferred Income Taxes		398,118,545.69
Federal		
Electric	289,426,453.33	
Gas	51,049,674.87	
Common	(1.00)	
State		
Electric	49,370,709.43	
Gas	8,271,709.06	
Miscellaneous Long-term Liabilities		6,203,202.79
Workers' Compensation	5,650,000.79	
Uncertain Tax Positions	553,202.00	
Accumulated Provision for Benefits		97,585,981.92
Pension Payable	13,141,622.00	
Postretirement Benefits - SFAS 106	80,893,649.92	
Post Employment Benefits Payable	3,762,588.00	
Post Employment Medicare Subsidy	(211,878.00)	
Total Liabilities and Other Credits	3,077,771,603.44	3,077,771,603.44

Louisville Gas and Electric Company
Statement of Cash Flows
February 29, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	12,888,686.16	20,873,735.13
Items not requiring (providing) cash currently:		
Depreciation	20,038,956.68	19,520,977.59
Amortization	844,873.32	978,852.79
Deferred income taxes - net	(1,229,593.00)	(649,867.00)
Investment tax credit - net	(645,154.00)	(658,484.00)
Other	(1,359,535.71)	(435,226.90)
Change in receivables	(12,622,109.38)	(7,105,114.08)
Change in inventory	51,671,044.54	44,769,768.58
Change in allowance inventory	442.80	748.80
Change in payables and accrued expenses	(24,837,570.50)	(37,629,189.95)
Change in other regulatory assets	(497,095.35)	(492,758.06)
Change in other regulatory liabilities	570,415.46	570,415.46
Change in other deferred debits	13,052,597.42	(1,416,362.56)
Change in other deferred credits	573,860.61	(10,111,485.02)
Other	8,682,178.58	6,314,172.09
Net cash provided (used) by operating activities	67,131,997.63	34,530,182.87
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(30,190,921.37)	(16,234,152.96)
Gross additions to common utility plant - construction expenditures	(3,984,726.55)	481,203.98
Change in long-term investments	-	(281,694.61)
Change in restricted cash	2,831,062.59	(7,006,288.29)
Net cash provided (used) by investing activities	(31,344,585.33)	(23,040,931.88)
Cash Flows from Financing Activities		
Net decrease in short-term debt	(32,052,000.00)	(9,426,000.00)
Net decrease in long-term capital lease obligations	(23,385.85)	-
Net decrease in long-term capital lease obligations	(23,649.00)	-
Dividends on preferred stock	-	(906,341.10)
Dividends on common stock	-	-
Net cash provided (used) by financing activities	(32,099,034.85)	(10,332,341.10)
Net Increase (Decrease) in Cash and Cash Equivalents	3,688,377.45	1,156,909.89
Cash and Cash Equivalents at Beginning of Period	4,348,418.88	6,608,687.22
Cash and Cash Equivalents at End of Period	8,036,796.33	7,765,597.11

Louisville Gas and Electric Company
Analysis of Interest Charges
February 29, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
Loan Agreement - Pollution Control Bonds						
1992 Series A Variable	-	87,513.44	-	184,907.41	165,575.00	1,119,409.61
1992 Series A Variable TC	-	167,539.73	-	353,030.14	317,112.57	2,127,649.27
1993 Series A Variable Rate	-	98,289.97	-	207,111.01	185,774.09	1,260,497.53
1995 Series A (5.90%)	-	-	-	-	-	-
Jefferson County 2000 Series A due May 1, 2027	106,770.83	69,027.78	190,277.77	150,833.34	977,326.37	894,930.61
Trimble County 2000 Series A due Aug. 1, 2030	261,945.06	232,736.14	598,882.35	490,056.10	3,486,273.75	3,061,186.02
Jefferson County 2001 Series A due Sep. 1, 2027	30,570.21	28,375.41	67,884.84	60,132.84	409,562.88	365,506.57
Jefferson County 2001 Series A due Sep. 1, 2026	57,433.68	62,439.05	118,828.30	130,278.10	811,535.31	799,458.92
Trimble County 2001 Series A due Sep. 1, 2026	70,196.71	76,314.38	145,234.58	159,228.76	991,876.45	977,116.44
Jefferson County 2001 Series B due Nov. 1, 2027	89,896.20	96,657.53	185,992.12	203,671.24	1,267,179.01	1,256,730.15
Trimble County 2001 Series B due Nov. 1, 2027	89,896.20	96,657.53	185,992.12	203,671.24	1,264,590.27	1,256,730.14
Trimble County 2002 Series A due Oct. 1, 2032	148,559.64	115,361.82	315,632.89	242,884.12	1,692,141.78	1,478,548.14
Louisville Metro 2003 Series A due Oct. 1, 2033	435,448.89	353,422.24	889,671.12	766,044.46	4,893,813.36	4,521,120.01
Louisville Metro 2005 Series A due Feb. 1, 2035	190,000.00	107,322.22	311,388.90	228,866.66	1,541,361.13	1,384,894.39
Louisville Metro 2007 Series A due Jun. 1, 2033	175,537.50	-	282,056.94	-	1,071,370.35	-
Louisville Metro 2007 Series B due Jun. 1, 2033	185,196.00	-	303,018.22	-	1,203,522.24	-
Trimble County 2007 Series A due Jun. 1, 2033	230,000.00	-	452,333.33	-	2,338,333.37	-
Interest Rate Swaps	428,560.99	182,004.24	641,574.28	298,803.75	1,935,491.83	1,745,595.61
Notes/Debentures	9,880.00	-	9,880.00	-	3,446,135.41	-
Fidelia	1,820,774.99	911,875.01	3,641,549.98	1,823,750.02	18,911,525.52	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.68	-	195,833.36	150,138.89	1,199,479.20
Total	4,330,666.90	2,783,453.17	8,340,197.74	5,699,102.55	47,060,639.58	34,391,352.73
Amortization of Debt Expense - Net						
Amortization of Debt Expense	34,186.08	34,054.02	68,372.16	68,108.04	401,331.74	408,648.24
Amort. of Loss on Reacquired Debt	86,701.34	85,136.04	173,402.68	170,272.08	1,038,536.55	1,021,632.18
Total	120,887.42	119,190.06	241,774.84	238,380.12	1,439,868.29	1,430,280.42
Other Interest Charges						
Customers' Deposits	82,276.96	73,594.11	168,777.03	153,301.25	984,516.66	914,266.76
Federal Income Tax Deficiencies	-	(1,058,734.00)	-	(1,058,734.00)	(0.31)	383,125.99
Other Tax Deficiencies	-	-	-	-	180.30	-
Gas Refunds	-	475.76	-	951.52	1,496.12	3,330.32
Interest on Debt to Associated Companies	161,889.49	244,234.48	505,674.15	510,484.66	4,072,662.54	1,581,115.21
Other Interest Expense	-	-	-	-	8,581.56	-
Total	244,166.45	(740,429.65)	674,451.18	(393,996.57)	5,067,436.87	2,881,838.28
Total Interest	4,695,720.77	2,162,213.58	9,256,423.76	5,543,486.10	53,567,944.74	38,703,471.43

Louisville Gas and Electric Company
Analysis of Taxes Charged
February 29, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,352,184.77	1,180,774.00	2,704,369.54	2,361,548.00
Unemployment	11,722.97	15,825.25	16,312.61	32,953.67
FICA	531,874.93	460,271.22	1,091,392.81	1,005,593.87
Public Service Commission Fee	161,615.66	158,705.95	323,231.32	317,411.90
Federal Income	2,303,303.82	5,322,718.08	8,596,826.34	12,248,780.55
State Income	438,724.52	1,182,826.24	1,637,490.72	2,721,951.24
Miscellaneous	-	-	6,236.37	-
Total Charged to Operating Expense	4,799,426.67	8,321,120.74	14,375,859.71	18,688,239.23
Taxes Charged to Other Accounts	444,771.26	412,590.91	662,365.13	594,588.30
Taxes Accrued on Intercompany Accounts	(189,117.35)	(192,757.77)	(366,638.49)	(403,088.31)
Total Taxes Charged	5,055,080.58	8,540,953.88	14,671,586.35	18,879,739.22

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	9,962,060.51	2,744,166.00	1,164,721.72	11,541,504.79
State Unemployment	21,016.80	4,476.40	1,055.42	24,437.78
Federal Unemployment	32,531.25	927.39	809.45	32,649.19
FICA	618,958.69	979,640.36	1,033,743.03	564,856.02
Federal Income	(6,107,469.91)	8,622,746.26	-	2,515,276.35
State Income	(832,671.91)	1,642,427.85	-	809,755.94
Kentucky Sales and Use Tax	527,167.51	672,280.72	770,782.54	428,665.69
Miscellaneous	(0.00)	4,921.37	4,921.37	(0.00)
Totals	4,221,592.94	14,671,586.35	2,976,033.53	15,917,145.76

Louisville Gas and Electric Company
Summary of Utility Plant - Utility Plant in Service
February 29, 2008

Utility Plant in Service	Net Balance First of Year	Additions	Retirements	Transfers/ Adjustments	Net Additions	Balance to Date
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,957,341,584.73	3,685,512.65	(1,066,224.98)	-	2,619,287.67	1,959,960,872.40
Hydro	29,738,481.51	-	-	-	-	29,738,481.51
Other Production	225,593,229.05	2,943.40	-	-	2,943.40	225,596,172.45
Transmission	254,545,457.73	124,359.63	(5,387.69)	-	118,971.94	254,664,429.67
Distribution	762,409,249.99	7,829,489.50	(3,597.33)	-	7,825,892.17	770,235,142.16
General	16,648,246.38	6,380.50	-	-	6,380.50	16,654,626.88
Total Electric	3,246,278,589.68	11,648,685.68	(1,075,210.00)	-	10,573,475.68	3,256,852,065.36
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	62,254,077.12	-	-	-	-	62,254,077.12
Transmission	12,901,908.09	-	-	-	-	12,901,908.09
Distribution	464,243,423.53	8,152,674.45	(2,043.77)	-	8,150,630.68	472,394,054.21
General	9,033,095.77	(0.06)	-	-	(0.06)	9,033,095.71
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	550,573,682.00	8,152,674.39	(2,043.77)	-	8,150,630.62	558,724,312.62
Common						
Intangible	28,321,223.19	128,437.37	-	-	128,437.37	28,449,660.56
General	149,510,912.37	522,021.39	-	-	522,021.39	150,032,933.76
Total Common	177,832,135.56	650,458.76	-	-	650,458.76	178,482,594.32
Total Plant in Service	3,974,684,407.24	20,451,818.83	(1,077,253.77)	-	19,374,565.06	3,994,058,972.30
Construction Work In Progress						
Electric	253,332,706.20	14,567,111.34	-	-	14,567,111.34	267,899,817.54
Gas	62,549,383.39	(4,177,550.04)	-	-	(4,177,550.04)	58,371,833.35
Common	28,559,694.35	3,334,267.79	-	-	3,334,267.79	31,893,962.14
Total Construction Work In Progress	344,441,783.94	13,723,829.09	-	-	13,723,829.09	358,165,613.03
Total Utility Plant at Original Cost	4,319,126,191.18	34,175,647.92	(1,077,253.77)	-	33,098,394.15	4,352,224,585.33

Louisville Gas an... ...ctric Company
Summary of Utility Plant - Reserve for Depreciation of Utility Plant
February 29, 2008

Reserve for Depreciation of Utility	Net Balance First of Year	Accruals	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Electric	(1,378,260,021.25)	(14,093,836.20)	1,075,210.00	-	-	-	-	-	(1,391,278,647.45)
Electric - ARO Steam	(2,207,905.66)	(27,114.02)	-	-	-	-	-	-	(2,235,019.68)
Electric - ARO Hydro	(16,818.08)	(82.44)	-	-	-	-	-	-	(16,900.52)
Electric - ARO Other Production	(114,837.08)	(562.92)	-	-	-	-	-	-	(115,400.00)
Electric - ARO Transmission	(2,336.94)	(29.52)	-	-	-	-	-	-	(2,366.46)
Electric - ARO Distribution	(12,367.53)	(60.94)	-	-	-	-	-	-	(12,428.47)
Gas	(155,853,439.88)	(1,915,239.41)	2,043.77	-	-	-	-	-	(157,766,635.52)
Gas - ARO Underground Storage	(401,123.53)	(1,513.88)	-	-	-	-	-	-	(402,637.41)
Gas - ARO Distribution	(19,162.71)	(2.18)	-	-	-	-	-	-	(19,164.89)
Common - ARO	(1,165.28)	(5.72)	-	-	-	-	-	-	(1,171.00)
Common	(62,470,548.01)	(1,067,289.29)	-	-	-	-	-	-	(63,537,837.30)
Total Life Reserves for Depreciation of Utility Plant in Service	(1,599,359,725.95)	(17,105,736.52)	1,077,253.77	-	-	-	-	-	(1,615,388,208.70)
Salvage Reserves									
Steam Production	(52,156,645.28)	(969,869.84)	-	-	-	347,294.53	(103,285.00)	-	(52,882,505.59)
Hydro Production	356,090.84	-	-	-	-	-	-	-	356,090.84
Other Production	(2,090,919.89)	-	-	-	-	-	-	-	(2,090,919.89)
Transmission	(16,955,752.03)	(186,599.46)	-	-	-	11,322.23	-	-	(17,131,029.26)
Distribution	(136,112,169.74)	(1,026,963.19)	-	-	-	77,403.37	-	-	(137,061,729.56)
Distribution General	112,862.90	3,774.96	-	-	-	-	-	-	116,637.86
Gas Stored Underground	47,228.50	(37,704.40)	-	-	-	-	-	-	9,524.10
Gas Transmission	(2,748,634.29)	(17,331.04)	-	-	-	-	-	-	(2,765,965.33)
Gas Distribution	(51,376,946.18)	(769,025.60)	-	-	-	983,633.80	(462.36)	-	(51,162,800.34)
Gas General	190,825.93	7,211.94	-	-	-	-	-	-	198,037.87
Common	(186,487.96)	(11,203.35)	-	-	-	-	-	-	(197,691.31)
Total Salvage Reserves for Depreciation of Utility Plant in Service	(260,920,547.20)	(3,007,709.98)	-	-	-	1,419,653.93	(103,747.36)	-	(262,612,350.61)
Total Reserves									
Electric	(1,587,460,819.74)	(16,301,343.57)	1,075,210.00	-	-	436,020.13	(103,285.00)	-	(1,602,354,218.18)
Gas	(210,161,252.16)	(2,733,604.57)	2,043.77	-	-	983,633.80	(462.36)	-	(211,909,641.52)
Common	(62,658,201.25)	(1,078,498.36)	-	-	-	-	-	-	(63,736,699.61)
Total Reserve for Depreciation of Utility Plant in Service	(1,860,280,273.15)	(20,113,446.50)	1,077,253.77	-	-	1,419,653.93	(103,747.36)	-	(1,878,000,559.31)
Retirement Work In Progress									
108001									
Electric	1,447,528.21	-	-	-	14,706.85	(21,753.52)	-	-	1,440,481.54
Gas	108,221.49	-	-	-	(1,189.88)	-	-	-	107,031.61
Common	(175.35)	-	-	-	-	-	-	-	(175.35)
Total 108001 RWIP	1,555,574.35	-	-	-	13,516.97	(21,753.52)	-	-	1,547,337.80
108901									
Electric	12,353,182.04	-	-	-	(403,254.10)	734,893.63	(17,635.66)	(233,415.62)	12,433,770.29
Gas	3,887,367.55	-	-	-	(926,169.44)	234,367.61	-	-	3,195,565.72
Common	190,065.66	-	-	-	-	(69,907.69)	(25,897.00)	-	94,260.97
Total 108901 RWIP	16,430,615.25	-	-	-	(1,329,423.54)	899,353.55	(43,532.66)	(233,415.62)	15,723,596.98
Total RWIP	17,986,189.60	-	-	-	(1,315,906.57)	877,600.03	(43,532.66)	(233,415.62)	17,270,934.78
Year to Date	(1,842,294,083.55)	(20,113,446.50)	1,077,253.77	-	(1,315,906.57)	2,297,253.96	(147,280.02)	(233,415.62)	(1,860,729,624.53)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(17,552,729.72)	(844,873.32)	-	-	-	-	-	-	(18,397,603.04)
Total Reserve for Amortization of Utility Plant in Service	(17,553,629.72)	(844,873.32)	-	-	-	-	-	-	(18,398,503.04)
Total Reserve for Depreciation and Amortization - Utility Plant in Service	(1,859,847,713.27)	(20,958,319.82)	1,077,253.77	-	(1,315,906.57)	2,297,253.96	(147,280.02)	(233,415.62)	(1,879,128,127.57)
Utility Plant at Original Cost Less Reserve for Depreciation and Amortization	2,459,278,477.91								2,473,096,457.76

LG&E Monthly Report to KPSC – January 31, 2008

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

January 31, 2008

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	80,090,309.08	80,076,424.95	13,884.13	0.02
Gas Operating Revenues	81,613,619.44	61,761,565.53	19,852,053.91	32.14
Total Operating Revenues	161,703,928.52	141,837,990.48	19,865,938.04	14.01
Fuel for Electric Generation	28,814,020.46	26,815,791.62	1,998,228.84	7.45
Power Purchased	9,734,369.57	11,695,038.57	(1,960,669.00)	(16.77)
Gas Supply Expenses	66,356,969.85	48,709,870.56	17,647,099.29	36.23
Other Operation Expenses	15,939,137.21	13,965,100.03	1,974,037.18	14.14
Maintenance	6,036,479.12	4,512,232.40	1,524,246.72	33.78
Depreciation	10,108,110.89	9,707,161.83	400,949.06	4.13
Amortization Expense	427,101.23	489,656.78	(62,555.55)	(12.78)
Regulatory Credits	(172,149.03)	(147,125.67)	(25,023.36)	17.01
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	6,293,522.52	6,926,062.47	(632,539.95)	(9.13)
State Income - Estimated	1,198,766.20	1,539,125.00	(340,358.80)	(22.11)
Property and Other	2,084,144.32	1,901,931.02	182,213.30	9.58
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(322,577.00)	(329,242.00)	6,665.00	(2.02)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	157,463.21	148,341.13	9,122.08	6.15
Total Operating Expenses	146,655,358.55	125,933,943.74	20,721,414.81	16.45
Net Operating Income	15,048,569.97	15,904,046.74	(855,476.77)	(5.38)
Other Income Less Deductions	(752,027.40)	(1,399,960.27)	647,932.87	(46.28)
Income Before Interest Charges	14,296,542.57	14,504,086.47	(207,543.90)	(1.43)
Interest on Long Term Debt	4,009,530.84	2,915,649.38	1,093,881.46	37.52
Amortization of Debt Expense - Net	120,887.42	119,190.06	1,697.36	1.42
Other Interest Expenses	430,284.73	346,433.08	83,851.65	24.20
Total Interest Charges	4,560,702.99	3,381,272.52	1,179,430.47	34.88
Net Income	9,735,839.58	11,122,813.95	(1,386,974.37)	(12.47)
Preferred Dividend Requirements	-	297,946.55	(297,946.55)	(100.00)
Earnings Available for Common	9,735,839.58	10,824,867.40	(1,089,027.82)	(10.06)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	80,090,309.08	80,076,424.95	13,884.13	0.02
Gas Operating Revenues	81,613,619.44	61,761,565.53	19,852,053.91	32.14
Total Operating Revenues	161,703,928.52	141,837,990.48	19,865,938.04	14.01
Fuel for Electric Generation	28,814,020.46	26,815,791.62	1,998,228.84	7.45
Power Purchased	9,734,369.57	11,695,038.57	(1,960,669.00)	(16.77)
Gas Supply Expenses	66,356,969.85	48,709,870.56	17,647,099.29	36.23
Other Operation Expenses	15,939,137.21	13,965,100.03	1,974,037.18	14.14
Maintenance	6,036,479.12	4,512,232.40	1,524,246.72	33.78
Depreciation	10,108,110.89	9,707,161.83	400,949.06	4.13
Amortization Expense	427,101.23	489,656.78	(62,555.55)	(12.78)
Regulatory Credits	(172,149.03)	(147,125.67)	(25,023.36)	17.01
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	6,293,522.52	6,926,062.47	(632,539.95)	(9.13)
State Income - Estimated	1,198,766.20	1,539,125.00	(340,358.80)	(22.11)
Property and Other	2,084,144.32	1,901,931.02	182,213.30	9.58
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(322,577.00)	(329,242.00)	6,665.00	(2.02)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	157,463.21	148,341.13	9,122.08	6.15
Total Operating Expenses	146,655,358.55	125,933,943.74	20,721,414.81	16.45
Net Operating Income	15,048,569.97	15,904,046.74	(855,476.77)	(5.38)
Other Income Less Deductions	(752,027.40)	(1,399,960.27)	647,932.87	(46.28)
Income Before Interest Charges	14,296,542.57	14,504,086.47	(207,543.90)	(1.43)
Interest on Long Term Debt	4,009,530.84	2,915,649.38	1,093,881.46	37.52
Amortization of Debt Expense - Net	120,887.42	119,190.06	1,697.36	1.42
Other Interest Expenses	430,284.73	346,433.08	83,851.65	24.20
Total Interest Charges	4,560,702.99	3,381,272.52	1,179,430.47	34.88
Net Income	9,735,839.58	11,122,813.95	(1,386,974.37)	(12.47)
Preferred Dividend Requirements	-	297,946.55	(297,946.55)	(100.00)
Earnings Available for Common	9,735,839.58	10,824,867.40	(1,089,027.82)	(10.06)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	932,469,451.40	945,243,823.06	(12,774,371.66)	(1.35)
Gas Operating Revenues	372,533,782.94	386,924,300.93	(14,390,517.99)	(3.72)
Total Operating Revenues	1,305,003,234.34	1,332,168,123.99	(27,164,889.65)	(2.04)
Fuel for Electric Generation	319,261,790.01	295,596,795.88	23,664,994.13	8.01
Power Purchased	80,376,379.11	111,862,687.74	(31,486,308.63)	(28.15)
Gas Supply Expenses	271,239,318.42	286,721,668.04	(15,482,349.62)	(5.40)
Other Operation Expenses	175,126,693.37	186,481,200.32	(11,354,506.95)	(6.09)
Maintenance	84,066,239.57	78,927,865.44	5,138,374.13	6.51
Depreciation	119,974,013.73	117,977,608.98	1,996,404.75	1.69
Amortization Expense	6,137,406.68	5,886,914.50	250,492.18	4.26
Regulatory Credits	(1,965,767.40)	(2,259,515.92)	293,748.52	(13.00)
Taxes				
Federal Income	34,624,584.99	62,654,793.56	(28,030,208.57)	(44.74)
State Income	7,620,508.53	11,361,385.20	(3,740,876.67)	(32.93)
Deferred Federal Income - Net	9,475,870.93	(7,024,761.20)	16,500,632.13	(234.89)
Deferred State Income - Net	1,500,153.46	(1,213,123.50)	2,713,276.96	(223.66)
Federal Income - Estimated	(632,539.95)	1,586,712.62	(2,219,252.57)	(139.86)
State Income - Estimated	(340,358.80)	352,602.81	(692,961.61)	(196.53)
Property and Other	22,078,876.78	21,741,398.26	337,478.52	1.55
Investment Tax Credit	8,979,626.00	3,000,000.00	5,979,626.00	199.32
Amortization of Investment Tax Credit	(3,944,235.94)	(4,015,764.44)	71,528.50	(1.78)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,790,039.44	2,072,471.71	(282,432.27)	(13.63)
Total Operating Expenses	1,134,815,506.24	1,170,706,333.93	(35,890,827.69)	(3.07)
Net Operating Income	170,187,728.10	161,461,790.06	8,725,938.04	5.40
Other Income Less Deductions	(156,899.70)	(2,979,068.61)	2,822,168.91	(94.73)
Income Before Interest Charges	170,030,828.40	158,482,721.45	11,548,106.95	7.29
Interest on Long Term Debt	45,513,425.85	34,274,300.82	11,239,125.03	32.79
Amortization of Debt Expense - Net	1,438,170.93	1,430,280.39	7,890.54	0.55
Other Interest Expenses	4,082,840.77	4,898,633.88	(815,793.11)	(16.65)
Total Interest Charges	51,034,437.55	40,603,215.09	10,431,222.46	25.69
Net Income	118,996,390.85	117,879,506.36	1,116,884.49	0.95
Preferred Dividend Requirements	643,689.69	3,713,696.48	(3,070,006.79)	(82.67)
Earnings Available for Common	118,352,701.16	114,165,809.88	4,186,891.28	3.67

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
JANUARY 31, 2008

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period..............................	689,961,390.20	639,104,729.77	689,961,390.20	639,104,729.77	649,929,597.17	630,763,787.29
Add:						
Net Income for Period....................................	9,735,839.58	11,122,813.95	9,735,839.58	11,122,813.95	118,996,390.85	117,879,506.36
FIN 48 Adjustment..	-	-	-	-	202,186.00	-
Deduct:						
Adjustment to Retained Earnings........................	-	-	-	-	3,787,254.55	-
Preferred Dividends						
$25 Par Value						
5% Series..	-	-	-	-	227,023.02	1,075,363.15
Without Par Value						
Auction Rate....................................	-	-	-	-	416,666.67	2,638,333.33
Preferred Dividends Accrued						
$25 Par Value						
5% Series..	-	89,613.23	-	89,613.23	-	-
Without Par Value						
Auction Rate....................................	-	208,333.32	-	208,333.32	-	-
Common Dividends						
Common Stock Without Par Value.................	-	-	-	-	65,000,000.00	95,000,000.00
Balance at End of Period.......................................	699,697,229.78	649,929,597.17	699,697,229.78	649,929,597.17	699,697,229.78	649,929,597.17

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF JANUARY 31, 2008 AND 2007

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,330,005,720.11	4,129,016,621.17
Less Reserves for Depreciation & Amortization	1,869,213,322.60	1,775,651,282.95
Total	2,460,792,397.51	2,353,365,338.22
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	13,415,869.22	4,406,948.68
Other	14,152,203.00	-
Total	28,174,237.42	5,018,572.15
Current and Accrued Assets		
Cash	11,721,521.01	7,347,056.96
Special Deposits	6,646,955.88	18,444,252.89
Temporary Cash Investments	36,045.74	5,481.96
Accounts Receivable-Less Reserve	213,964,518.16	164,521,845.56
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	76,673.84	22,972,636.43
Materials & Supplies-At Average Cost		
Fuel	41,413,951.63	35,163,220.94
Plant Materials & Operating Supplies	26,423,150.50	25,287,882.64
Stores Expense	4,586,865.26	4,391,320.62
Gas Stored Underground	57,041,051.06	62,475,600.97
Allowance Inventory	11,196.61	15,014.02
Prepayments	5,819,408.95	5,926,194.60
Miscellaneous Current & Accrued Assets	317,603.42	1,035,311.88
Total	368,058,942.06	347,585,819.47
Deferred Debits and Other		
Unamortized Debt Expense	9,863,944.05	8,097,990.84
Unamortized Loss on Bonds	19,013,529.44	19,538,137.03
Accumulated Deferred Income Taxes	53,847,000.03	54,991,015.58
Deferred Regulatory Assets	151,230,126.53	163,718,015.21
Other Deferred Debits	22,363,742.91	35,108,765.60
Total	256,318,342.96	281,453,924.26
Total Assets and Other Debits	3,113,343,919.95	2,987,423,654.10

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	60,000,000.00	40,000,000.00
Other Comprehensive Income	(15,778,594.00)	(7,845,232.19)
Retained Earnings	699,697,229.78	649,929,597.17
Total Common Equity	1,168,253,171.23	1,106,418,900.43
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	410,000,000.00	225,000,000.00
Total Capitalization	2,152,557,171.23	1,994,897,494.48
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	73,151,200.00	-
Notes Payable to Associated Companies	-	92,013,000.00
Notes Payable	-	-
Accounts Payable	110,842,748.69	88,516,762.38
Accounts Payable to Associated Companies	31,497,479.78	56,849,410.66
Customer Deposits	19,505,748.17	18,236,593.05
Taxes Accrued	12,880,809.11	33,788,517.41
Interest Accrued	9,064,318.32	6,189,399.37
Dividends Declared	-	297,945.13
ST Obligations Under Capital Leases	429,086.69	-
Misc. Current & Accrued Liabilities	11,823,781.78	8,619,711.23
Total	269,195,172.54	305,761,339.23
Deferred Credits and Other		
LT Obligations Under Capital Leases	-	-
Accumulated Deferred Income Taxes	398,118,545.69	388,683,652.65
Investment Tax Credit	45,776,385.20	40,740,995.14
Regulatory Liabilities	55,400,745.35	55,655,778.59
Customer Advances for Construction	14,867,336.36	20,992,087.97
Asset Retirement Obligations	29,740,138.90	28,579,043.01
Other Deferred Credits	43,880,187.91	47,041,339.44
Misc. Long-Term Liabilities	6,203,202.79	5,801,957.00
Accum Provision for Post-Retirement Benefits	97,605,033.98	99,269,966.59
Total	691,591,576.18	686,764,820.39
Total Liabilities and Other Credits	3,113,343,919.95	2,987,423,654.10

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JANUARY 31, 2008

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			60,000,000.00		
Other Comprehensive Income			(15,778,594.00)		
Retained Earnings			699,697,229.78		
Total Common Equity			1,168,253,171.23	52.49	54.27
Long-Term Debt					
Pollution Control Bonds	Not Limited				
Jefferson County 2000 Series A 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
Trimble County 2000 Series A 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
Jefferson County 2001 Series A 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
Jefferson County 2001 Series A 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
Trimble County 2001 Series A 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
Jefferson County 2001 Series B 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
Trimble County 2001 Series B 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
Trimble County 2002 Series A 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
Louisville Metro 2003 Series A 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
Louisville Metro 2005 Series A 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
Louisville Metro 2007 Series A 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
Louisville Metro 2007 Series B 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
Trimble County 2007 Series A 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	25.80	26.68
LT Notes Payable to Associated Companies			410,000,000.00	18.42	19.05
Total Capitalization			2,152,557,171.23	96.71	100.00
ST Notes Payable to Associated Companies			73,151,200.00	3.29	
Total Capitalization and Short-Term Debt			2,225,708,371.23	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
UTILITY PLANT		
At Original Cost	4.330.005,720 11	4,330,005.720 11
Reserves for Depreciation and Amortization		(1,869.213.322 60)
Electric	(1,580.777.429 54)	
Gas	(207,407.189 04)	
Common	(63,047.973 07)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(17.979.830 95)	
INVESTMENTS - AT COST		28.174,237 42
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63.360 36)	
Ohio Valley Electric Corporation	594.286.00	
Special Funds	13,415,869 22	
Prepaid Pension	14,152.203 00	
CASH		11.721.521 01
JP Morgan Chase	13,226 35	
BB&T	11.670 09	
Bank of America	8,959,949 51	
Town and Country Bank	22,617 97	
US Bank	2.626,898 24	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10.000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		6.646,955 88
Margin Account	5,831,192 09	
MAN Margin Call	815,763 79	
TEMPORARY CASH INVESTMENTS		36,045 74
Other	36,045 74	
ACCOUNTS RECEIVABLE - LESS RESERVE		213.964,518 16
Working Funds	21,280.00	
Customers-Active	116,353,750 87	
Wholesale Sales	8,771,293 82	
Transmission Sales	251,431 36	
Unbilled Revenues	68.666,000.00	
Employee Computer Loans	106,026 83	
Damage Claims	687,478 82	
RAR Settlements	1,038,234 00	
Officers and Employees	9 96	
Tax Refunds	1,860,522 77	
IMEA	2,214,615 03	
IMPA	2,282,113 07	
Other	13,060,088 80	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(712.978.00)	
Accrual	(77,687 69)	
Charged Off	316,051 38	
Recoveries	(238,363 69)	
A/R Miscellaneous	(1,081,869.00)	
LEM Reserve	(35.866 12)	
Interest and Dividends Receivable	43,732 39	
Rents Receivable	438,653 56	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		76,673 84
E.ON US Services/Kentucky Utilities	76.673 84	
FUEL		41.413,951 63
Coal 1,077,947 73 Tons @ \$36.55; MMBTU 24,776,611 21 @ 159.03¢	39,402,873 83	
Fuel Oil 230,223 Gallons @ 224 39¢	516,607.08	
Gas Pipeline 167,717 MCF @ \$8.91	1,494,470 72	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
PLANT MATERIALS AND OPERATING SUPPLIES		26,423,150 50
Regular Materials and Supplies	26,109,340 12	
Limestone 44,763 91 Tons @ $7 01	313,810 38	
STORES EXPENSE		4,586,865 26
Stores Expense Undistributed	4,586,865 26	
GAS STORED UNDERGROUND - CURRENT		57,041,051 06
Gas St Underground*7,904,807 MCF (14 73 psia) @ $7 22	57,041,051 06	
ALLOWANCE INVENTORY		11,196 61
Allowance Inventory	11,196 61	
PREPAYMENTS		5,819,408 95
Insurance	3,161,663 14	
Taxes	808,078 25	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	8,006 36	
Other	1,471,661 17	
MISCELLANEOUS CURRENT ASSETS		317,603 42
Miscellaneous Current Assets	3,834 01	
Derivative Asset - Non-Hedging	313,769 41	
UNAMORTIZED DEBT EXPENSE		9,863,944 05
Jefferson County 2000 Series A due May 1, 2027	460,018 49	
Trimble County 2000 Series A due Aug. 1, 2030	861,240 99	
Jefferson County 2001 Series A due Sep 1, 2027	388,515 00	
Jefferson County 2001 Series A due Sep 1, 2026	183,459 36	
Trimble County 2001 Series A due Sep 1, 2026	199,554 23	
Jefferson County 2001 Series B due Nov 1, 2027	216,195 02	
Trimble County 2001 Series B due Nov 1, 2027	216,228 67	
Trimble County 2002 Series A due Oct 1, 2032	908,608 48	
Louisville Metro 2003 Series A due Oct 1, 2033	3,015,251 41	
Louisville Metro 2005 Series A due Feb 1, 2035	988,946 40	
Louisville Metro 2007 Series A due Jun 1, 2033	629,972 90	
Louisville Metro 2007 Series B due Jun 1, 2033	592,546 04	
Trimble County 2007 Series A due Jun 1, 2033	1,203,407 06	
UNAMORTIZED LOSS ON BONDS		19,013,529 44
Refinanced and Called Bonds	19,013,529 44	
OTHER DEFERRED DEBITS	22,363,742 91	22,363,742 91
DEFERRED REGULATORY ASSETS		151,230,126 53
Asset Retirement Obligations		
Electric	19,093,836 15	
Gas	5,235,451 85	
Common	23,261 17	
Pension & Postretirement Benefits	109,983,623 00	
ECR Ash Hauling	3,754,937 96	
MISO Exit Fee	13,139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		53,847,000 03
Federal		
Electric	37,726,117 79	
Gas	7,568,233 98	
State		
Electric	7,336,136 83	
Gas	1,216,511 43	
Total Assets and Other Debits	3,113,343,919.95	3,113,343,919.95

* Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990 00	2,930,000
	11,788,845 00	10,810,000

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
COMMON EQUITY		1,168,253,171.23
Common Stock	425,170,424.09	
Retained Earnings	699,697,229.78	
Common Stock Expense	(835,888.64)	
Paid-In Capital	60,000,000.00	
Other Comprehensive Income	(15,778,594.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	410,000,000.00	410,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		73,151,200.00
Money Pool Payable	73,151,200.00	
ACCOUNTS PAYABLE		110,842,748.69
Regular	105,526,881.08	
Salaries and Wages Accrued	3,555,709.87	
Tax Collections - Payable	1,760,157.74	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		31,497,479.78
E.ON US Services/Kentucky Utilities	31,497,479.78	
CUSTOMERS' DEPOSITS	19,505,748.17	19,505,748.17
TAXES ACCRUED	12,880,809.11	12,880,809.11
INTEREST ACCRUED		9,064,318.32
Jefferson County 2000 Series A due May 1, 2027	39,062.50	
Trimble County 2000 Series A due Aug. 1, 2030	18,065.19	
Jefferson County 2001 Series A due Sep. 1, 2027	3,494.29	
Jefferson County 2001 Series A due Sep. 1, 2026	114,867.37	
Trimble County 2001 Series A due Sep. 1, 2026	140,393.43	
Jefferson County 2001 Series B due Nov. 1, 2027	179,792.35	
Trimble County 2001 Series B due Nov. 1, 2027	179,792.66	
Trimble County 2002 Series A due Oct. 1, 2032	10,245.48	
Louisville Metro 2003 Series A due Oct. 1, 2033	227,555.55	
Louisville Metro 2005 Series A due Feb. 1, 2035	15,111.14	
Louisville Metro 2007 Series A due Jun. 1, 2033	28,631.97	
Louisville Metro 2007 Series B due Jun. 1, 2033	32,511.14	
Trimble County 2007 Series A due Jun. 1, 2033	459,999.98	
Interest Rate Swaps	213,013.28	
Fidelia	6,597,675.51	
Customers' Deposits	804,106.48	
ST OBLIGATIONS UNDER CAPITAL LEASES	429,086.69	429,086.69
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,823,781.78
Customer Overpayments	2,757,935.22	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,682,762.12	
Derivative Liability - Non-Hedging	695,938.82	
Postretirement Benefits - Current	3,061,339.00	
Other	375,806.62	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
LT OBLIGATIONS UNDER CAPITAL LEASES	0.00	0 00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		14,867,336 36
Line Extensions		
Electric	799,072 49	
Gas	8,325,995 68	
Customer Advances - Arena	5,742,268 19	
ASSET RETIREMENT OBLIGATIONS		29,740,138 90
Electric	21,903,519 12	
Gas	7,810,791 59	
Common	25,828 19	
OTHER DEFERRED CREDITS	43,880,187 91	43,880,187 91
REGULATORY LIABILITIES		55,400,745 35
Asset Retirement Obligations		
Electric	227,590 10	
Gas	114,791 50	
Deferred Taxes		
Federal		
Electric	26,900,418 75	
Gas	1,984,311 50	
State		
Electric	18,695,556 00	
Gas	2,743,651 50	
MISO Schedule 10 Charges	4,734,426 00	
INVESTMENT TAX CREDIT		45,776,385 20
Job Development Credit		
Electric	32,662,097 25	
Gas	1,134,661 95	
Advanced Coal Credit	11,979,626 00	
ACCUMULATED DEFERRED INCOME TAXES		398,118,545 69
Federal		
Electric	289,426,453 33	
Gas	51,049,674 87	
Common	(1 00)	
State		
Electric	49,370,709 43	
Gas	8,271,709 06	
MISCELLANEOUS LONG-TERM LIABILITIES		6,203,202 79
Workers' Compensation	5,650,000 79	
Uncertain Tax Positions	553,202 00	
ACCUMULATED PROVISION FOR BENEFITS		97,605,033 98
Pension Payable	13,141,622 00	
Postretirement Benefits - SFAS 106	80,912,701 98	
Post Employment Benefits Payable	3,762,588 00	
Post Employment Medicare Subsidy	(211,878 00)	
Total Liabilities and Other Credits	3,113,343,919.95	3,113,343,919.95

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
JANUARY 31, 2008

	YEAR TO DATE 2008	YEAR TO DATE 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	9,735,839.58	11,122,813.95
Items not requiring (providing) cash currently:		
Depreciation	10,108,110.89	9,707,161.83
Amortization	427,101.23	489,656.78
Deferred income taxes - net	(1,684,866.00)	1,094,143.00
Investment tax credit - net	(322,577.00)	(329,242.00)
Other	(2,368,895.59)	1,721,155.77
Change in receivables	(24,693,539.75)	(2,932,980.45)
Change in inventory	28,641,032.28	23,077,833.76
Change in allowance inventory	262.86	388.98
Change in payables and accrued expenses	(14,770,881.47)	(57,342,104.49)
Change in other regulatory assets	(208,077.25)	(98,311.67)
Change in other regulatory liabilities	285,207.73	285,207.73
Change in other deferred debits	10,717,652.47	635,584.59
Change in other deferred credits	3,017,934.50	(4,236,695.85)
Other	6,973,872.57	4,660,368.11
Net cash provided (used) by operating activities	25,858,177.05	(12,145,019.96)
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(10,417,843.76)	(5,898,643.87)
Gross additions to common utility plant - construction expenditures	(1,520,361.48)	(90,089.51)
Change in long-term investments		(1,566,648.87)
Change in restricted cash	(1,420,823.94)	(2,838,404.98)
Net cash provided (used) by investing activities	(13,359,029.18)	(10,393,787.23)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term debt	-	24,189,000.00
Net increase in short-term capital lease obligations	23,649.00	-
Net decrease in short-term debt	(5,090,000.00)	-
Net decrease in long-term capital lease obligations	(23,649.00)	-
Dividends on preferred stock	-	(906,341.11)
Net cash provided (used) by financing activities	(5,090,000.00)	23,282,658.89
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,409,147.87	743,851.70
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,348,418.88	6,608,687.22
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,757,566.75	7,352,538.92

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
JANUARY 31, 2008

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest on Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable..........	-	97,393.97	-	97,393.97	253,088.44	1,107,615.61
1992 Series A Variable TC..........	-	185,490.41	-	185,490.41	484,652.30	2,108,794.47
1993 Series A Variable Rate..........	-	108,821.04	-	108,821.04	284,064.06	1,248,346.30
1995 Series A (5.90%)..........	-	-	-	-	-	-
2000 Series A Variable Rate..........	83,506.94	81,805.56	83,506.94	81,805.56	939,583.32	886,632.00
2000 Series A Variable TC..........	336,937.29	257,319.96	336,937.29	257,319.96	3,457,064.83	3,029,379.82
2001 Series A Variable Rate..........	37,314.63	31,757.43	37,314.63	31,757.43	407,368.08	361,591.26
2001 Series A Variable Rate..........	61,394.62	67,839.05	61,394.62	67,839.05	816,540.68	792,252.75
2001 Series A Variable Rate TC..........	75,037.87	82,914.38	75,037.87	82,914.38	997,994.12	968,308.91
2001 Series B Variable Rate..........	96,095.92	107,013.71	96,095.92	107,013.71	1,273,940.34	1,247,332.89
2001 Series B Variable Rate TC..........	96,095.92	107,013.71	96,095.92	107,013.71	1,271,351.60	1,247,332.88
2002 Series A Variable Rate TC..........	167,073.25	127,522.30	167,073.25	127,522.30	1,658,943.96	1,463,867.22
2003 Series A Variable Rate..........	454,222.23	412,622.22	454,222.23	412,622.22	4,811,786.71	4,468,853.33
2005 Series A Variable Rate..........	121,388.90	121,544.44	121,388.90	121,544.44	1,458,683.35	1,368,794.39
2007 Series A Variable Rate..........	106,519.44	-	106,519.44	-	895,832.85	-
2007 Series B Variable Rate..........	117,822.22	-	117,822.22	-	1,018,326.24	-
2007 Series A Variable Rate (4.6%)..........	222,333.33	-	222,333.33	-	2,108,333.37	-
Interest Rate Swaps..........	213,013.29	116,799.51	213,013.29	116,799.51	1,688,935.08	1,827,099.89
Notes/Debentures..........	-	-	-	-	3,436,255.41	-
Fidelia..........	1,820,774.99	911,875.01	1,820,774.99	911,875.01	18,002,625.54	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock..........	-	97,916.68	-	97,916.68	248,055.57	1,205,598.98
Total..........	4,009,530.84	2,915,649.38	4,009,530.84	2,915,649.38	45,513,425.85	34,274,300.82
Amortization of Debt Expense - Net						
Amortization of Debt Expense..........	34,186.08	34,054.02	34,186.08	34,054.02	401,199.68	408,648.24
Amort. of Loss on Reacquired Debt..........	86,701.34	85,136.04	86,701.34	85,136.04	1,036,971.25	1,021,632.15
Total..........	120,887.42	119,190.06	120,887.42	119,190.06	1,438,170.93	1,430,280.39
Other Interest Charges						
Customers' Deposits..........	86,500.07	79,707.14	86,500.07	79,707.14	975,833.81	908,704.09
Federal Income Tax Deficiencies..........	-	-	-	-	(1,058,734.31)	2,344,010.99
Other Tax Deficiencies..........	-	-	-	-	180.30	-
Gas Refunds..........	-	475.76	-	475.76	1,971.88	2,854.56
Interest on Debt to Associated Companies..........	343,784.66	266,250.18	343,784.66	266,250.18	4,155,007.53	1,643,064.24
Other Interest Expense..........	-	-	-	-	8,581.56	-
Total..........	430,284.73	346,433.08	430,284.73	346,433.08	4,082,840.77	4,898,633.88
Total Interest..........	4,560,702.99	3,381,272.52	4,560,702.99	3,381,272.52	51,034,437.55	40,603,215.09

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
JANUARY 31, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,352,184.77	1,180,774.00	1,352,184.77	1,180,774.00
Unemployment	4,589.64	17,128.42	4,589.64	17,128.42
FICA	559,517.88	545,322.65	559,517.88	545,322.65
Public Service Commission Fee	161,615.66	158,705.95	161,615.66	158,705.95
Federal Income	6,293,522.52	6,926,062.47	6,293,522.52	6,926,062.47
State Income	1,198,766.20	1,539,125.00	1,198,766.20	1,539,125.00
Miscellaneous	6,236.37	-	6,236.37	-
Total Charged to Operating Expense	9,576,433.04	10,367,118.49	9,576,433.04	10,367,118.49
Taxes Charged to Other Accounts	217,593.87	181,997.39	217,593.87	181,997.39
Taxes Accrued on Intercompany Accounts	(177,521.14)	(210,330.54)	(177,521.14)	(210,330.54)
Total Taxes Charged	9,616,505.77	10,338,785.34	9,616,505.77	10,338,785.34

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	9,962,060.51	1,372,083.00	25,873.58	11,308,269.93
State Unemployment	21,016.80	1,438.13	1,055.42	21,399.51
Federal Unemployment	32,531.25	(2,260.88)	809.45	29,460.92
FICA	618,958.69	499,626.43	396,440.55	722,144.57
Federal Income	(6,107,469.91)	6,301,673.26	-	194,203.35
State Income	(832,671.91)	1,200,318.71	-	367,646.80
Kentucky Sales and Use Tax	527,167.51	243,615.12	528,485.23	242,297.40
Miscellaneous	(0.00)	12.00	4,625.37	(4,613.37)
Totals	4,221,592.94	9,616,505.77	957,289.60	12,880,809.11

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
JANUARY 31, 2008

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,957,341,584.73	3,642,439.50	(1,055,078.98)	-	2,587,360.52	1,959,928,945.25
Hydro	29,738,481.51	-	-	-	-	29,738,481.51
Other Production	225,593,229.05	-	-	-	-	225,593,229.05
Transmission	254,545,457.73	0.01	-	-	0.01	254,545,457.74
Distribution	762,409,249.99	4,859,112.28	(3,597.33)	-	4,855,514.95	767,264,764.94
General	16,648,246.38	-	-	-	-	16,648,246.38
Total Electric	3,246,278,589.68	8,501,551.79	(1,058,676.31)	-	7,442,875.48	3,253,721,465.16
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	62,254,077.12	-	-	-	-	62,254,077.12
Transmission	12,901,908.09	-	-	-	-	12,901,908.09
Distribution	464,243,423.53	7,935,122.16	-	-	7,935,122.16	472,178,545.69
General	9,033,095.77	-	-	-	-	9,033,095.77
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	550,573,682.00	7,935,122.16	-	-	7,935,122.16	558,508,804.16
Common						
Intangible	28,321,223.19	128,437.37	-	-	128,437.37	28,449,660.56
General	149,510,912.37	493,502.74	-	-	493,502.74	150,004,415.11
Total Common	177,832,135.56	621,940.11	-	-	621,940.11	178,454,075.67
Total Plant in Service	3,974,684,407.24	17,058,614.06	(1,058,676.31)	-	15,999,937.75	3,990,684,344.99
Construction Work In Progress						
Electric	253,332,706.20	173,475.16	-	-	173,475.16	253,506,181.36
Gas	62,549,383.39	(6,192,305.35)	-	-	(6,192,305.35)	56,357,078.04
Common	28,559,694.35	898,421.37	-	-	898,421.37	29,458,115.72
Total Construction Work In Progress	344,441,783.94	(5,120,408.82)	-	-	(5,120,408.82)	339,321,375.12
Total Utility Plant at Original Cost	4,319,126,191.18	11,938,205.24	(1,058,676.31)	-	10,879,528.93	4,330,005,720.11

LOUISVILLE GAS AN ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
JANUARY 31, 2008

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,378,260,021.25)	(7,103,278.75)	1,058,676.31	-	-	-	-	-	(1,384,304,623.69)
Electric - ARO Steam	(2,207,905.66)	(13,557.03)	-	-	-	-	-	-	(2,221,462.69)
Electric - ARO Hydro	(16,818.08)	(41.22)	-	-	-	-	-	-	(16,859.30)
Electric - ARO Other Production	(114,837.08)	(281.46)	-	-	-	-	-	-	(115,118.54)
Electric - ARO Transmission	(2,336.94)	(14.75)	-	-	-	-	-	-	(2,351.69)
Electric - ARO Distribution	(12,367.53)	(30.47)	-	-	-	-	-	-	(12,398.00)
Gas	(155,853,439.88)	(982,703.29)	-	-	-	-	-	-	(156,836,143.17)
Gas - ARO Underground Storage	(401,123.53)	(756.94)	-	-	-	-	-	-	(401,880.47)
Gas - ARO Distribution	(19,162.71)	(1.09)	-	-	-	-	-	-	(19,163.80)
Common - ARO	(1,165.28)	(2.86)	-	-	-	-	-	-	(1,168.14)
Common	(62,470,548.01)	(544,361.52)	-	-	-	-	-	-	(63,014,909.53)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,599,359,725.95)	(8,645,029.38)	1,058,676.31	-	-	-	-	-	(1,606,946,079.02)
Salvage Reserves									
Steam Production	(52,156,645.28)	(484,731.09)	-	-	-	347,294.53	(103,285.00)	-	(52,397,366.84)
Hydro Production	356,090.84	-	-	-	-	-	-	-	356,090.84
Other Production	(2,090,919.89)	-	-	-	-	-	-	-	(2,090,919.89)
Transmission	(16,955,752.03)	(93,281.91)	-	-	-	-	-	-	(17,049,033.94)
Distribution	(136,112,169.74)	(511,666.27)	-	-	-	77,403.37	-	-	(136,546,432.64)
Distribution General	112,862.90	1,886.10	-	-	-	-	-	-	114,749.00
Gas Stored Underground	47,228.50	(18,852.20)	-	-	-	-	-	-	28,376.30
Gas Transmission	(2,748,634.29)	(8,665.52)	-	-	-	-	-	-	(2,757,299.81)
Gas Distribution	(51,376,946.18)	(383,116.51)	-	-	-	981,404.25	(462.36)	-	(50,779,120.80)
Gas General	190,825.93	3,605.97	-	-	-	-	-	-	194,431.90
Common	(186,487.96)	(5,570.42)	-	-	-	-	-	-	(192,058.38)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(260,920,547.20)	(1,500,391.85)	-	-	-	1,406,102.15	(103,747.36)	-	(261,118,584.26)
Total Reserves									
Electric	(1,587,460,819.74)	(8,204,996.85)	1,058,676.31	-	-	424,697.90	(103,285.00)	-	(1,594,285,727.38)
Gas	(210,161,252.16)	(1,390,489.58)	-	-	-	981,404.25	(462.36)	-	(210,570,799.85)
Common	(62,658,201.25)	(549,934.80)	-	-	-	-	-	-	(63,208,136.05)
Total Reserve For Depreciation Of Utility Plant in Service	(1,860,280,273.15)	(10,145,421.23)	1,058,676.31	-	-	1,406,102.15	(103,747.36)	-	(1,868,064,663.28)
Retirement Work in Progress									
108001									
Electric	1,447,528.21	-	-	-	14,706.85	(21,753.52)	-	-	1,440,481.54
Gas	108,221.49	-	-	-	(1,189.88)	-	-	-	107,031.61
Common	(175.35)	-	-	-	-	-	-	-	(175.35)
Total 108001 RWIP	1,555,574.35	-	-	-	13,516.97	(21,753.52)	-	-	1,547,337.80
108901									
Electric	12,353,182.04	-	-	-	(390,112.95)	318,648.35	(11,932.70)	(201,968.44)	12,067,816.30
Gas	3,887,367.55	-	-	-	(925,758.81)	94,970.46	-	-	3,056,579.20
Common	190,065.66	-	-	-	-	(3,830.33)	(25,897.00)	-	160,338.33
Total 108901 RWIP	16,430,615.25	-	-	-	(1,315,871.76)	409,788.48	(37,829.70)	(201,968.44)	15,284,733.83
Total RWIP	17,986,189.60	-	-	-	(1,302,354.79)	388,034.96	(37,829.70)	(201,968.44)	16,832,071.63
YTD Activity	(1,842,294,083.55)	(10,145,421.23)	1,058,676.31	-	(1,302,354.79)	1,794,137.11	(141,577.06)	(201,968.44)	(1,851,232,591.65)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(17,552,729.72)	(427,101.23)	-	-	-	-	-	-	(17,979,830.95)
Total Reserve For Amortization Of Utility Plant In Service	(17,553,629.72)	(427,101.23)	-	-	-	-	-	-	(17,980,730.95)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,859,847,713.27)	(10,572,522.46)	1,058,676.31	-	(1,302,354.79)	1,794,137.11	(141,577.06)	(201,968.44)	(1,869,213,322.60)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,459,278,477.91								2,460,792,397.51

LG&E Monthly Report to KPSC – December 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

December 31, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	81,888,072.91	82,667,927.68	(779,854.77)	(0.94)
Gas Operating Revenues	56,830,963.72	49,122,909.35	7,708,054.37	15.69
Total Operating Revenues	138,719,036.63	131,790,837.03	6,928,199.60	5.26
Fuel for Electric Generation	27,422,997.73	24,320,699.41	3,102,298.32	12.76
Power Purchased	8,949,954.84	8,303,045.91	646,908.93	7.79
Gas Supply Expenses	43,037,893.22	33,329,126.60	9,708,766.62	29.13
Other Operation Expenses	17,161,942.33	18,746,246.80	(1,584,304.47)	(8.45)
Maintenance	9,131,561.74	8,735,815.75	395,745.99	4.53
Depreciation	10,177,373.32	10,292,756.46	(115,383.14)	(1.12)
Amortization Expense	470,973.77	480,244.93	(9,271.16)	(1.93)
Regulatory Credits	(163,026.95)	(585,341.88)	422,314.93	(72.15)
Taxes				
Federal Income	1,399,696.49	17,479,987.89	(16,080,291.40)	(91.99)
State Income	110,070.81	2,795,719.96	(2,685,649.15)	(96.06)
Deferred Federal Income - Net	6,847,487.01	(4,709,305.53)	11,556,792.54	(245.40)
Deferred State Income - Net	792,413.52	(760,117.12)	1,552,530.64	(204.25)
Federal Income - Estimated	(5,058,803.10)	(8,258,712.06)	3,199,908.96	(38.75)
State Income - Estimated	(963,581.54)	(1,835,269.34)	871,687.80	(47.50)
Property and Other	663,060.04	2,055,155.45	(1,392,095.41)	(67.74)
Investment Tax Credit	200,000.00	3,000,000.00	(2,800,000.00)	(93.33)
Amortization of Investment Tax Credit	(323,017.09)	(323,759.27)	742.18	(0.23)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	543,386.73	(395,045.60)	(72.70)
Total Operating Expenses	120,005,337.27	113,609,680.69	6,395,656.58	5.63
Net Operating Income	18,713,699.36	18,181,156.34	532,543.02	2.93
Other Income Less Deductions	(553,717.58)	104,138.27	(657,855.85)	(631.71)
Income Before Interest Charges	18,159,981.78	18,285,294.61	(125,312.83)	(0.69)
Interest on Long Term Debt	3,938,369.87	2,881,670.47	1,056,699.40	36.67
Amortization of Debt Expense - Net	120,887.43	119,190.03	1,697.40	1.42
Other Interest Expenses	481,491.82	356,318.75	125,173.07	35.13
Total Interest Charges	4,540,749.12	3,357,179.25	1,183,569.87	35.25
Net Income	13,619,232.66	14,928,115.36	(1,308,882.70)	(8.77)
Preferred Dividend Requirements	-	302,113.24	(302,113.24)	(100.00)
Earnings Available for Common	13,619,232.66	14,626,002.12	(1,006,769.46)	(6.88)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	932,455,567.27	942,660,528.56	(10,204,961.29)	(1.08)
Gas Operating Revenues	352,681,729.03	395,229,578.66	(42,547,849.63)	(10.77)
Total Operating Revenues	1,285,137,296.30	1,337,890,107.22	(52,752,810.92)	(3.94)
Fuel for Electric Generation	317,263,561.17	292,570,844.23	24,692,716.94	8.44
Power Purchased	82,337,048.11	113,833,624.61	(31,496,576.50)	(27.67)
Gas Supply Expenses	253,592,219.13	295,283,461.76	(41,691,242.63)	(14.12)
Other Operation Expenses	173,152,656.19	189,841,464.35	(16,688,808.16)	(8.79)
Maintenance	82,541,992.85	79,035,653.75	3,506,339.10	4.44
Depreciation	119,573,064.67	117,982,270.26	1,590,794.41	1.35
Amortization Expense	6,199,962.23	5,867,355.52	332,606.71	5.67
Regulatory Credits	(1,940,744.04)	(2,260,936.51)	320,192.47	(14.16)
Taxes				
Federal Income	34,624,584.99	62,654,793.56	(28,030,208.57)	(44.74)
State Income	7,620,508.53	11,361,385.20	(3,740,876.67)	(32.93)
Deferred Federal Income - Net	9,475,870.93	(7,024,761.20)	16,500,632.13	(234.89)
Deferred State Income - Net	1,500,153.46	(1,213,123.50)	2,713,276.96	(223.66)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	21,896,663.48	21,708,691.30	187,972.18	0.87
Investment Tax Credit	8,979,626.00	3,000,000.00	5,979,626.00	199.32
Amortization of Investment Tax Credit	(3,950,900.94)	(4,021,661.44)	70,760.50	(1.76)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,780,917.36	2,058,041.59	(277,124.23)	(13.47)
Total Operating Expenses	1,114,094,091.43	1,179,672,497.41	(65,578,405.98)	(5.56)
Net Operating Income	171,043,204.87	158,217,609.81	12,825,595.06	8.11
Other Income Less Deductions	(804,832.57)	(722,288.80)	(82,543.77)	11.43
Income Before Interest Charges	170,238,372.30	157,495,321.01	12,743,051.29	8.09
Interest on Long Term Debt	44,419,544.39	34,124,703.13	10,294,841.26	30.17
Amortization of Debt Expense - Net	1,436,473.57	1,430,280.36	6,193.21	0.43
Other Interest Expenses	3,998,989.12	5,111,741.52	(1,112,752.40)	(21.77)
Total Interest Charges	49,855,007.08	40,666,725.01	9,188,282.07	22.59
Net Income	120,383,365.22	116,828,596.00	3,554,769.22	3.04
Preferred Dividend Requirements	941,636.24	3,705,364.67	(2,763,728.43)	(74.59)
Earnings Available for Common	119,441,728.98	113,123,231.33	6,318,497.65	5.59

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	932,455,567.27	942,660,528.56	(10,204,961.29)	(1.08)
Gas Operating Revenues	352,681,729.03	395,229,578.66	(42,547,849.63)	(10.77)
Total Operating Revenues	1,285,137,296.30	1,337,890,107.22	(52,752,810.92)	(3.94)
Fuel for Electric Generation	317,263,561.17	292,570,844.23	24,692,716.94	8.44
Power Purchased	82,337,048.11	113,833,624.61	(31,496,576.50)	(27.67)
Gas Supply Expenses	253,592,219.13	295,283,461.76	(41,691,242.63)	(14.12)
Other Operation Expenses	173,152,656.19	189,841,464.35	(16,688,808.16)	(8.79)
Maintenance	82,541,992.85	79,035,653.75	3,506,339.10	4.44
Depreciation	119,573,064.67	117,982,270.26	1,590,794.41	1.35
Amortization Expense	6,199,962.23	5,867,355.52	332,606.71	5.67
Regulatory Credits	(1,940,744.04)	(2,260,936.51)	320,192.47	(14.16)
Taxes				
Federal Income	34,624,584.99	62,654,793.56	(28,030,208.57)	(44.74)
State Income	7,620,508.53	11,361,385.20	(3,740,876.67)	(32.93)
Deferred Federal Income - Net	9,475,870.93	(7,024,761.20)	16,500,632.13	(234.89)
Deferred State Income - Net	1,500,153.46	(1,213,123.50)	2,713,276.96	(223.66)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	21,896,663.48	21,708,691.30	187,972.18	0.87
Investment Tax Credit	8,979,626.00	3,000,000.00	5,979,626.00	199.32
Amortization of Investment Tax Credit	(3,950,900.94)	(4,021,661.44)	70,760.50	(1.76)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,780,917.36	2,058,041.59	(277,124.23)	(13.47)
Total Operating Expenses	1,114,094,091.43	1,179,672,497.41	(65,578,405.98)	(5.56)
Net Operating Income	171,043,204.87	158,217,609.81	12,825,595.06	8.11
Other Income Less Deductions	(804,832.57)	(722,288.80)	(82,543.77)	11.43
Income Before Interest Charges	170,238,372.30	157,495,321.01	12,743,051.29	8.09
Interest on Long Term Debt	44,419,544.39	34,124,703.13	10,294,841.26	30.17
Amortization of Debt Expense - Net	1,436,473.57	1,430,280.36	6,193.21	0.43
Other Interest Expenses	3,998,989.12	5,111,741.52	(1,112,752.40)	(21.77)
Total Interest Charges	49,855,007.08	40,666,725.01	9,188,282.07	22.59
Net Income	120,383,365.22	116,828,596.00	3,554,769.22	3.04
Preferred Dividend Requirements	941,636.24	3,705,364.67	(2,763,728.43)	(74.59)
Earnings Available for Common	119,441,728.98	113,123,231.33	6,318,497.65	5.59

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
DECEMBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period..............................	676,342,157.54	624,478,727.65	639,104,729.77	620,981,498.44	639,104,729.77	620,981,498.44
Add:						
Credits from Income.......................................	13,619,232.66	14,928,115.36	120,383,365.22	116,828,596.00	120,383,365.22	116,828,596.00
FIN 48 Adjustment...			202,186.00		202,186.00	
Deduct:						
Adjustment to Retained Earnings........................	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series...			316,636.25	1,075,364.65	316,636.25	1,075,364.65
Without Par Value						
Auction Rate....................................			624,999.99	2,630,000.02	624,999.99	2,630,000.02
Preferred Dividends Accrued						
$25 Par Value						
5% Series...	-	89,613.23				
Without Par Value						
Auction Rate....................................	-	212,500.01				
Common Dividends						
Common Stock Without Par Value.................	-	-	65,000,000.00	95,000,000.00	65,000,000.00	95,000,000.00
Balance at End of Period......................................	689,961,390.20	639,104,729.77	689,961,390.20	639,104,729.77	689,961,390.20	639,104,729.77

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,319,126,191.18	4,123,936,037.59
Less Reserves for Depreciation & Amortization	1,859,847,713.27	1,766,590,602.01
Total	2,459,278,477.91	2,357,345,435.58
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	11,722,027.91	2,840,299.81
Other	14,152,203.00	-
Total	26,480,396.11	3,451,923.28
Current and Accrued Assets		
Cash	4,312,502.37	6,603,228.82
Special Deposits	6,919,973.25	15,605,847.91
Temporary Cash Investments	35,916.51	5,458.40
Accounts Receivable-Less Reserve	189,314,670.23	165,153,987.55
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	32,982.02	19,407,513.99
Materials & Supplies-At Average Cost		
Fuel	45,925,806.95	37,861,747.02
Plant Materials & Operating Supplies	26,407,266.82	25,262,980.31
Stores Expense	4,584,569.70	4,433,230.81
Gas Stored Underground	81,188,407.26	82,837,900.79
Allowance Inventory	11,459.47	15,403.00
Prepayments	5,339,357.09	5,379,921.01
Miscellaneous Current & Accrued Assets	541,812.72	895,626.68
Total	364,614,724.39	363,462,846.29
Deferred Debits and Other		
Unamortized Debt Expense	9,898,130.12	8,132,044.84
Unamortized Loss on Bonds	19,100,230.75	19,623,273.03
Accumulated Deferred Income Taxes	52,162,134.03	56,085,158.58
Deferred Regulatory Assets	151,022,049.28	163,619,703.54
Other Deferred Debits	35,204,527.20	37,172,349.84
Total	267,387,071.38	284,632,529.83
Total Assets and Other Debits	3,117,760,669.79	3,008,892,734.98

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	60,000,000.00	40,000,000.00
Other Comprehensive Income	(13,132,184.00)	(9,305,657.19)
Retained Earnings	689,961,390.20	639,104,729.77
Total Common Equity	1,161,163,741.65	1,094,133,608.03
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	410,000,000.00	225,000,000.00
Total Capitalization	2,145,467,741.65	1,982,612,202.08
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	78,241,200.00	-
Notes Payable to Associated Companies	-	67,824,000.00
Notes Payable	-	-
Accounts Payable	116,607,085.85	102,644,447.96
Accounts Payable to Associated Companies	51,450,063.89	51,631,564.92
Customer Deposits	19,373,313.09	18,146,501.05
Taxes Accrued	4,221,592.94	28,624,485.57
Interest Accrued	7,271,934.99	5,600,249.19
Dividends Declared	-	906,339.69
ST Obligations Under Capital Leases	405,437.69	-
Misc. Current & Accrued Liabilities	11,510,623.55	7,195,301.60
Total	289,081,252.00	283,822,889.98
Deferred Credits and Other		
LT Obligations Under Capital Leases	23,649.00	-
Accumulated Deferred Income Taxes	398,118,545.69	388,683,652.65
Investment Tax Credit	46,098,962.20	41,070,237.14
Regulatory Liabilities	55,115,537.62	55,370,570.86
Customer Advances for Construction	9,612,516.23	16,806,392.80
Asset Retirement Obligations	29,582,675.69	28,430,701.88
Other Deferred Credits	40,862,253.41	51,278,035.29
Misc. Long-Term Liabilities	6,154,355.80	61,501,905.30
Accum Provision for Post-Retirement Benefits	97,643,180.50	99,316,147.00
Total	683,211,676.14	742,457,642.92
Total Liabilities and Other Credits	3,117,760,669.79	3,008,892,734.98

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
DECEMBER 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			60,000,000.00		
Other Comprehensive Income			(13,132,184.00)		
Retained Earnings			689,961,390.20		
Total Common Equity			1,161,163,741.65	52.22	54.12
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	25.82	26.77
LT Notes Payable to Associated Companies			410,000,000.00	18.44	19.11
Total Capitalization			2,145,467,741.65	96.48	100.00
ST Notes Payable to Associated Companies			78,241,200.00	3.52	
Total Capitalization and Short-Term Debt			2,223,708,941.65	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4.319.126,191 18	4.319.126.191 18
Reserves for Depreciation and Amortization		(1,859.847,713 27)
Electric	(1.573,660,109 49)	
Gas	(206,165.663 12)	
Common	(62.468,310 94)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(17.552,729 72)	
INVESTMENTS - AT COST		26,480.396 11
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63.360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	11,722,027 91	
Prepaid Pension	14.152,203 00	
CASH		4.312.502 37
JP Morgan Chase	18,809 42	
BB&T	11,674 46	
Bank of America	8,957 48	
Town and Country Bank	22,617 97	
US Bank	4,163,284 19	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	77.058 85	
OTHER SPECIAL DEPOSITS		6.919.973 25
Margin Account	6,748,440 82	
MAN Margin Call	171,532 43	
TEMPORARY CASH INVESTMENTS		35.916 51
Other	35,916 51	
ACCOUNTS RECEIVABLE - LESS RESERVE		189,314,670 23
Working Funds	21,280 00	
Customers-Active	87.821.416.07	
Wholesale Sales	8,919,479 37	
Transmission Sales	208.069 76	
Unbilled Revenues	64,669,000 00	
Employee Computer Loans	104,772 29	
Damage Claims	713,019 29	
RAR Settlements	1,038,234 00	
Tax Refunds	1.860.522 77	
IMEA	3,232,631 25	
IMPA	3,370,114 93	
Other	18,490,796 59	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(671,396 00)	
A/R Miscellaneous	(1,081,869 00)	
LEM Reserve	(37,205 51)	
Interest and Dividends Receivable	220,495 73	
Rents Receivable	435,308 69	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		32,982 02
E ON US Services/Kentucky Utilities	32,982 02	
FUEL		45,925,806 95
Coal 1,229,990.82 Tons @ $35.92; MMBTU 28.300,159 23 @ 156 10¢	44,175.774 45	
Fuel Oil 238,024 Gallons @ 225.17¢	535.965 01	
Gas Pipeline 130,403 MCF @ $9 31	1,214,067 49	
PLANT MATERIALS AND OPERATING SUPPLIES		26,407,266 82
Regular Materials and Supplies	26,045,705 04	
Limestone 52.537 91 Tons @ $6.88	361,561 78	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,584,569 70
Stores Expense Undistributed	4,584,569 70	
GAS STORED UNDERGROUND - CURRENT		81,188,407 26
Gas St Underground*11.253,000 MCF (14 73 psia) @ $7 21	81,188,407 26	
ALLOWANCE INVENTORY		11,459 47
Allowance Inventory	11,459 47	
PREPAYMENTS		5,339,357 09
Insurance	2.554,589 61	
Taxes	969,693 91	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	12,009 54	
Other	1,433,064 00	
MISCELLANEOUS CURRENT ASSETS		541.812 72
Miscellaneous Current Assets	3.834 01	
Derivative Asset - Non-Hedging	537,978 71	
UNAMORTIZED DEBT EXPENSE		9,898,130 12
Pollution Control Series Y due May 1, 2027	462,010 49	
Pollution Control Series Z due Aug. 1, 2030	864.430 99	
Pollution Control Series AA due Sept 1, 2027	390,168 00	
Pollution Control Series BB due Sept 1, 2026	184.282 36	
Pollution Control Series CC due Sept 1, 2026	200,449 23	
Pollution Control Series DD due Nov 1, 2027	217,107 02	
Pollution Control Series EE due Nov 1, 2027	217,140 67	
Pollution Control Series FF due Oct 1, 2032	911.678 48	
Pollution Control Series GG due Oct 1, 2033	3.025,010 63	
Pollution Control Series HH due Feb 1, 2035	991,998 40	
Pollution Control Bonds due Jun 1, 2033	632,031 63	
Pollution Control Bonds due Jun 1. 2033	594,482 46	
Pollution Control Bonds due Jun 1, 2033	1.207.339 76	
UNAMORTIZED LOSS ON BONDS		19,100,230 75
Refinanced and Called Bonds	19,100.230 75	
OTHER DEFERRED DEBITS	35,204,527 20	35.204,527 20
DEFERRED REGULATORY ASSET		151,022,049 28
Asset Retirement Obligations		
Electric	18,959,464 59	
Gas	5,197,802 26	
Common	23,133 29	
Pension & Postretirement Benefits	109,983,623 00	
ECR Ash Hauling	3,719,009 74	
MISO Exit Fee	13.139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		52.162,134 03
Federal		
Electric	36,586,125 79	
Gas	7,283,234 98	
State		
Electric	7.128,235 83	
Gas	1,164,537 43	
Total Assets and Other Debits	3,117,760,669.79	3,117,760,669.79

* Excludes:

	$	MCF
Non-recoverable Base Gas	9,648.855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11.788,845 00	10,810,000

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,161,163,741.65
Common Stock	425,170,424.09	
Retained Earnings	689,961,390.20	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	60,000,000.00	
Other Comprehensive Income	(13,132,184.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	410,000,000.00	410,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		78,241,200.00
Money Pool Payable	78,241,200.00	
ACCOUNTS PAYABLE		116,607,085.85
Regular	112,159,705.53	
Salaries and Wages Accrued	3,001,064.47	
Tax Collections - Payable	1,446,315.85	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		51,450,063.89
E.ON US Services/Kentucky Utilities	51,450,063.89	
CUSTOMERS' DEPOSITS	19,373,313.09	19,373,313.09
AXES ACCRUED	4,221,592.94	4,221,592.94
INTEREST ACCRUED		7,271,934.99
Loan Agreement - Pol. Cont. Bonds 2000 Series A	52,777.78	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	65,973.56	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	7,156.99	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	53,472.75	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	65,355.56	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	83,696.43	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	83,696.74	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	32,532.94	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	302,222.22	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	4,111.14	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	14,638.92	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	15,644.47	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	237,666.65	
Interest Rate Swaps	145,078.42	
Fidelia	5,318,150.52	
Customers' Deposits	789,759.90	
ST OBLIGATIONS UNDER CAPITAL LEASES	405,437.69	405,437.69
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,510,623.55
Customer Overpayments	2,925,300.19	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,682,762.12	
Derivative Liabilities - Non-Hedging	152,956.06	
Postretirement Benefits - Current	3,061,339.00	
Other	438,266.18	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	23,649 00	23,649 00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		9,612,516 23
Line Extensions		
Electric	799,072 49	
Gas	7,966,552 87	
Customer Advances - Arena	846,890 87	
ASSET RETIREMENT OBLIGATIONS		29,582,675 69
Electric	21,783,072 49	
Gas	7,773,900 03	
Common	25,703 17	
OTHER DEFERRED CREDITS	40,862,253 41	40,862,253 41
REGULATORY LIABILITIES		55,115,537 62
Asset Retirement Obligations		
Electric	225,470 03	
Gas	110,199 84	
Deferred Taxes		
Federal		
Electric	26,900,418 75	
Gas	1,984,311 50	
State		
Electric	18,695,556 00	
Gas	2,743,651 50	
MISO Schedule 10 Charges	4,455,930 00	
INVESTMENT TAX CREDIT		46,098,962 20
Job Development Credit		
Electric	32,971,436 25	
Gas	1,147,899 95	
Advanced Coal Credit	11,979,626 00	
ACCUMULATED DEFERRED INCOME TAXES		398,118,545 69
Federal		
Electric	289,426,453 33	
Gas	51,049,674 87	
Common	(1 00)	
State		
Electric	49,370,709 43	
Gas	8,271,709 06	
MISCELLANEOUS LONG-TERM LIABILITIES		6,154,355 80
Workers' Compensation	5,601,153 80	
Uncertain Tax Positions	553,202 00	
ACCUMULATED PROVISION FOR BENEFITS		97,643,180 50
Pension Payable	13,141,622 00	
Postretirement Benefits - FAS 106	80,950,848 50	
Post Employment Benefit Payable	3,762,588 00	
Post Employment Medicare Subsidy	(211,878 00)	
Total Liabilities and Other Credits	3,117,760,669.79	3,117,760,669.79

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
DECEMBER 31, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	120,383,365.22	116,828,596.00
Items not requiring (providing) cash currently:		
Depreciation	119,573,064 67	117,982,270 26
Amortization	6,199,962 23	5,867,355 52
Deferred income taxes - net	13,357,917 59	10,896,096 35
Investment tax credit - net	5,028,725 06	(1,021,661 44)
Other	(2,185,254 71)	85,820,436 40
Change in receivables	(18,938,353 71)	83,007,631 20
Change in inventory	(7,710,191 80)	40,854,977 46
Change in allowance inventory	3,943 53	6,039 76
Change in payables and accrued expenses	(82,471,108 83)	(49,625,726.32)
Change in other regulatory assets	12,597,654 26	(136,100,208.06)
Change in other regulatory liabilities	(255,033 24)	13,477,152 76
Change in other deferred debits	2,025,609 22	30,668,917 19
Change in other deferred credits	(10,415,781 88)	9,643,840 07
Other	(13,291,884.28)	(647,874.66)
Net cash provided (used) by operating activities	143,902,633.33	327,657,842.49
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(197,717,056.72)	(146,347,665 30)
Loss on disposal of property	(357,016 26)	
Change in long-term investments	-	(2,721,342 85)
Change in restricted cash	(3,036,153.25)	(2,947,699.96)
Net cash provided (used) by investing activities	(201,110,226.23)	(152,016,708.11)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	308,320,562 59	(1,965 17)
Net increase in short-term debt	10,417,200 00	-
Net increase in short-term capital lease obligations	405,437 69	-
Net increase in long-term capital lease obligations	23,649 00	-
Payments for retirement of long-term debt	(126,000,000 00)	-
Payments for retirement of preferred stock	(91,643,112 60)	(1,250,000 00)
Net decrease in short-term debt	-	(73,421,000 00)
Contributed capital	20,000,000 00	-
Dividends on preferred stock	(4,416,711 93)	(3,617,864 66)
Dividends on common stock	(65,000,000.00)	(95,000,000.00)
Net cash provided (used) by financing activities	52,107,024.75	(173,290,829.83)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,100,568 15)	2,350,304 55
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,348,418.88	9,448,987.03

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
DECEMBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	96,846.58	350,482.41	1,093,497.80	350,482.41	1,093,497.80
1992 Series A Variable TC	-	184,676.71	670,142.71	2,084,843.78	670,142.71	2,084,843.78
1993 Series A Variable Rate	-	108,088.11	392,885.10	1,227,718.15	392,885.10	1,227,718.15
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	81,944.43	77,118.06	937,881.94	870,951.45	937,881.94	870,951.45
2000 Series A Variable TC	297,459.66	258,917.22	3,377,447.50	2,996,129.16	3,377,447.50	2,996,129.16
2001 Series A Variable Rate	35,532.41	32,136.32	401,810.88	357,114.63	401,810.88	357,114.63
2001 Series A Variable Rate	62,620.68	67,913.01	822,985.11	784,800.01	822,985.11	784,800.01
2001 Series A Variable Rate TC	76,536.38	83,004.79	1,005,870.63	959,200.00	1,005,870.63	959,200.00
2001 Series B Variable Rate	98,041.65	107,013.69	1,284,858.13	1,235,760.97	1,284,858.13	1,235,760.97
2001 Series B Variable Rate TC	97,926.59	107,013.69	1,282,269.39	1,235,442.48	1,282,269.39	1,235,442.48
2002 Series A Variable Rate TC	153,818.05	127,643.30	1,619,393.01	1,448,634.94	1,619,393.01	1,448,634.94
2003 Series A Variable Rate	439,111.11	384,675.55	4,770,186.70	4,384,764.45	4,770,186.70	4,384,764.45
2005 Series A Variable Rate	125,166.67	122,266.66	1,458,838.89	1,351,861.06	1,458,838.89	1,351,861.06
2007 Series A Variable Rate	105,236.39	-	789,313.41	-	789,313.41	-
2007 Series B Variable Rate	121,518.22	-	900,504.02	-	900,504.02	-
2007 Series A Variable Rate (4.6%)	207,000.00	-	1,886,000.04	-	1,886,000.04	-
Interest Rate Swaps	145,078.41	114,565.11	1,592,721.30	1,939,765.37	1,592,721.30	1,939,765.37
Notes/Debentures	70,604.22	-	3,436,255.41	-	3,436,255.41	-
Fidelia	1,820,775.00	911,875.01	17,093,725.56	10,942,500.12	17,093,725.56	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.66	345,972.25	1,211,718.76	345,972.25	1,211,718.76
Total	3,938,369.87	2,881,670.47	44,419,544.39	34,124,703.13	44,419,544.39	34,124,703.13
Amortization of Debt Expense - Net						
Amortization of Debt Expense	34,186.08	34,054.02	401,067.62	408,648.24	401,067.62	408,648.24
Amort. of Loss on Reacquired Debt	86,701.35	85,136.01	1,035,405.95	1,021,632.12	1,035,405.95	1,021,632.12
Total	120,887.43	119,190.03	1,436,473.57	1,430,280.36	1,436,473.57	1,430,280.36
Other Interest Charges						
Customers' Deposits	85,683.90	79,164.04	969,040.88	902,480.19	969,040.88	902,480.19
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	2,344,010.99	(1,058,734.31)	2,344,010.99
Other Tax Deficiencies	(1,781.00)	-	180.30	213.87	180.30	213.87
Gas Refunds	-	475.76	2,447.64	2,378.80	2,447.64	2,378.80
Interest on Debt to Associated Companies	397,588.92	276,678.95	4,077,473.05	1,862,657.67	4,077,473.05	1,862,657.67
Other	-	-	8,581.56	-	8,581.56	-
Total	481,491.82	356,318.75	3,998,989.12	5,111,741.52	3,998,989.12	5,111,741.52
Total Interest	4,540,749.12	3,357,179.25	49,855,007.08	40,666,725.01	49,855,007.08	40,666,725.01

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
DECEMBER 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	(94,526.41)	1,200,746.00	13,595,557.62	13,929,607.34
Unemployment	56,747.91	45,947.74	172,305.30	181,001.60
Federal Old Age and Survivors Insurance	539,222.88	643,786.11	6,186,858.25	5,941,109.87
Public Service Commission Fee	161,615.66	158,705.95	1,921,929.68	1,780,935.20
Federal Income	(3,659,106.61)	9,221,275.83	34,624,584.99	62,654,793.56
State Income	(853,510.73)	960,450.62	7,620,508.53	11,361,385.20
Miscellaneous	-	5,969.65	20,012.63	(123,962.71)
Total Charged to Operating Expense	(3,849,557.30)	12,236,881.90	64,141,757.00	95,724,870.06
Taxes Charged to Other Accounts	694,979.52	(1,450,506.18)	2,139,975.29	(140,702.92)
Taxes Accrued on Intercompany Accounts	(158,475.17)	(191,436.39)	(2,237,807.97)	(2,233,494.71)
Total Taxes Charged	(3,313,052.95)	10,594,939.33	64,043,924.32	93,350,672.43

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	13,701,371.56	17,665,280.29	9,962,060.51
State Unemployment	18,782.64	40,436.16	38,202.00	21,016.80
Federal Unemployment	29,205.50	57,523.49	54,197.74	32,531.25
Federal Old Age and Survivors	561,717.23	5,377,049.02	5,319,807.56	618,958.69
Federal Income	6,350,985.46	33,678,492.83	46,136,948.20	(6,107,469.91)
State Income	7,726,946.43	7,330,028.66	15,889,647.00	(832,671.91)
Kentucky Sales and Use Tax	10,878.70	3,781,545.61	3,265,256.80	527,167.51
Miscellaneous	0.37	77,476.99	77,477.36	(0.00)
Totals	28,624,485.57	64,043,924.32	88,446,816.95	4,221,592.94

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
DECEMBER 31, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	15,557,149.02	(3,472,625.88)	(863.74)	12,083,659.40	1,957,341,584.73
Hydro	17,884,886.35	14,171,878.95	(2,318,277.29)	(6.50)	11,853,595.16	29,738,481.51
Other Production	225,436,782.99	315,143.06	(158,697.00)	-	156,446.06	225,593,229.05
Transmission	240,067,695.28	15,275,701.14	(794,761.48)	(3,177.21)	14,477,762.45	254,545,457.73
Distribution	754,284,748.12	12,660,357.59	(4,475,758.80)	(60,096.92)	8,124,501.87	762,409,249.99
General	16,886,738.80	81,698.54	(283,538.31)	(36,652.65)	(238,492.42)	16,648,246.38
Total Electric	3,199,821,117.16	58,061,928.30	(11,503,658.76)	(100,797.02)	46,457,472.52	3,246,278,589.68
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	1,277,208.27	(71,420.92)	-	1,205,787.35	62,254,077.12
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	25,972,179.33	(1,847,226.03)	(2,319.15)	24,122,634.15	464,243,423.53
General	10,346,233.87	298,651.06	(1,578,381.53)	(33,407.63)	(1,313,138.10)	9,033,095.77
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	27,555,855.40	(3,497,028.48)	(35,726.78)	24,023,100.14	550,573,682.00
Common						
Intangible	28,877,505.07	3,467,608.47	(4,023,890.35)	-	(556,281.88)	28,321,223.19
General	150,813,423.54	5,778,913.92	(7,061,865.86)	(19,559.23)	(1,302,511.17)	149,510,912.37
Total Common	179,690,928.61	9,246,522.39	(11,085,756.21)	(19,559.23)	(1,858,793.05)	177,832,135.56
Total Plant in Service	3,906,062,627.63	94,864,306.09	(26,086,443.45)	(156,083.03)	68,621,779.61	3,974,684,407.24
Construction Work In Progress						
Electric	154,377,558.86	98,955,147.34	-	-	98,955,147.34	253,332,706.20
Gas	54,810,960.24	7,738,423.15	-	-	7,738,423.15	62,549,383.39
Common	8,684,890.86	19,874,803.49	-	-	19,874,803.49	28,559,694.35
Total Construction Work In Progress	217,873,409.96	126,568,373.98	-	-	126,568,373.98	344,441,783.94
Total Utility Plant at Original Cost	4,123,936,037.59	221,432,680.07	(26,086,443.45)	(156,083.03)	195,190,153.59	4,319,126,191.18

LOUISVILLE GAS AN[illegible]ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
DECEMBER 31, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(84,306,453.87)	11,503,658.76	-	-	-	-	(5,897,944.35)	(1,378,260,021.25)
Electric - ARO Steam	(2,049,614.55)	(158,291.11)	-	-	-	-	-	-	(2,207,905.66)
Electric - ARO Hydro	(15,828.80)	(989.28)	-	-	-	-	-	-	(16,818.08)
Electric - ARO Other Production	(108,105.20)	(6,731.88)	-	-	-	-	-	-	(114,837.08)
Electric - ARO Transmission	(2,165.47)	(171.47)	-	-	-	-	-	-	(2,336.94)
Electric - ARO Distribution	(12,001.89)	(365.64)	-	-	-	-	-	-	(12,367.53)
Gas	(148,577,916.87)	(10,772,551.49)	3,497,028.48	-	-	-	-	-	(155,853,439.88)
Gas - ARO Underground Storage	(392,040.25)	(9,083.28)	-	-	-	-	-	-	(401,123.53)
Gas - ARO Distribution	(19,101.73)	(60.98)	-	-	-	-	-	-	(19,162.71)
Common - ARO	(1,130.96)	(34.32)	-	-	-	-	-	-	(1,165.28)
Common	(62,084,425.21)	(7,447,988.66)	7,061,865.86	-	-	-	-	-	(62,470,548.01)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(102,702,721.98)	22,062,553.10	-	-	-	-	(5,897,944.35)	(1,599,359,725.95)
Salvage Reserves									
Steam Production	(46,966,253.01)	(5,765,603.02)	-	-	-	845,094.40	(269,883.65)	-	(52,156,645.28)
Hydro Production	(522,713.14)	-	-	-	-	878,803.98	-	-	356,090.84
Other Production	(2,093,564.72)	-	-	-	-	2,644.83	-	-	(2,090,919.89)
Transmission	(16,367,877.32)	(1,098,287.65)	-	-	-	510,412.94	-	-	(16,955,752.03)
Distribution	(132,166,536.49)	(6,072,396.68)	-	-	-	2,184,643.83	(57,880.40)	-	(136,112,169.74)
Distribution General	89,695.45	4,820.32	-	-	-	18,347.13	-	-	112,862.90
Gas Stored Underground	249,305.84	(226,166.49)	-	-	-	24,089.15	-	-	47,228.50
Gas Transmission	(2,644,672.08)	(103,962.21)	-	-	-	-	-	-	(2,748,634.29)
Gas Distribution	(47,306,815.37)	(4,325,310.98)	-	-	-	259,826.61	(4,646.44)	-	(51,376,946.18)
Gas General	148,519.46	42,306.47	-	-	-	-	-	-	190,825.93
Common	(354,458.62)	(41,985.20)	-	-	-	209,955.86	-	-	(186,487.96)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(17,586,585.44)	-	-	-	4,933,818.73	(332,410.49)	-	(260,920,547.20)
Total Reserves									
Electric	(1,499,774,246.93)	(97,404,470.28)	11,503,658.76	-	-	4,439,947.11	(327,764.05)	(5,897,944.35)	(1,587,460,819.74)
Gas	(198,542,721.00)	(15,394,828.96)	3,497,028.48	-	-	283,915.76	(4,646.44)	-	(210,161,252.16)
Common	(62,440,014.79)	(7,490,008.18)	7,061,865.86	-	-	209,955.86	-	-	(62,658,201.25)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(120,289,307.42)	22,062,553.10	-	-	4,933,818.73	(332,410.49)	(5,897,944.35)	(1,860,280,273.15)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(1,160,385.89)	(3,625.94)	497.82	37,152.02	1,447,528.21
Gas	(465,950.02)	-	-	620,863.56	(64,606.20)	17,914.15	-	-	108,221.49
Common	(502,243.45)	-	-	587,479.60	(20,862.21)	(64,549.29)	-	-	(175.35)
Total 108001 RWIP	2,800,302.69	-	-	13,737.20	(1,245,854.30)	(50,261.08)	497.82	37,152.02	1,555,574.35
108901									
Electric	8,273,600.70	-	-	6,238,184.17	2,945,392.58	(2,301,197.55)	(660,787.52)	(2,142,010.34)	12,353,182.04
Gas	3,107,219.25	-	-	198,479.08	(211,108.52)	792,777.74	-	-	3,887,367.55
Common	(4,637,184.09)	-	-	(5,698,720.60)	(191,893.65)	10,715,064.00	2,800.00	-	190,065.66
Total 108901 RWIP	6,743,635.86	-	-	737,942.65	2,542,390.41	9,206,644.19	(657,987.52)	(2,142,010.34)	16,430,615.25
Total RWIP	9,543,938.55	-	-	751,679.85	1,296,536.11	9,156,383.11	(657,489.70)	(2,104,858.32)	17,986,189.60
YTD Activity	(1,751,213,044.17)	(120,289,307.42)	22,062,553.10	751,679.85	1,296,536.11	14,090,201.84	(989,900.19)	(8,002,802.67)	(1,842,294,083.55)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(6,199,962.23)	4,023,890.35	-	-	-	-	-	(17,552,729.72)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(6,199,962.23)	4,023,890.35	-	-	-	-	-	(17,553,629.72)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(126,489,269.65)	26,086,443.45	751,679.85	1,296,536.11	14,090,201.84	(989,900.19)	(8,002,802.67)	(1,859,847,713.27)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,459,278,477.91

LG&E Monthly Report to KPSC – November 30, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

November 30, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	61,950,523.69	83,232,983.04	(21,282,459.35)	(25.57)
Gas Operating Revenues	38,772,817.76	33,851,215.46	4,921,602.30	14.54
Total Operating Revenues	100,723,341.45	117,084,198.50	(16,360,857.05)	(13.97)
Fuel for Electric Generation	21,908,117.48	24,166,885.92	(2,258,768.44)	(9.35)
Power Purchased	6,503,770.91	15,080,546.25	(8,576,775.34)	(56.87)
Gas Supply Expenses	28,015,167.46	26,317,132.76	1,698,034.70	6.45
Other Operation Expenses	13,543,567.64	16,401,806.30	(2,858,238.66)	(17.43)
Maintenance	8,708,808.95	6,596,855.57	2,111,953.38	32.01
Depreciation	9,962,018.41	9,832,663.98	129,354.43	1.32
Amortization Expense	501,349.77	481,748.06	19,601.71	4.07
Regulatory Credits	(163,026.95)	(152,405.59)	(10,621.36)	6.97
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	2,319,851.29	4,525,356.40	(2,205,505.11)	(48.74)
State Income - Estimated	441,876.44	1,005,634.76	(563,758.32)	(56.06)
Property and Other	2,152,319.89	1,862,374.00	289,945.89	15.57
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(329,198.00)	(335,139.00)	5,941.00	(1.77)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.36	10,570.77	7.67
Total Operating Expenses	93,712,964.42	105,921,229.77	(12,208,265.35)	(11.53)
Net Operating Income	7,010,377.03	11,162,968.73	(4,152,591.70)	(37.20)
Other Income Less Deductions	752,565.53	(955,936.07)	1,708,501.60	(178.73)
Income Before Interest Charges	7,762,942.56	10,207,032.66	(2,444,090.10)	(23.95)
Interest on Long Term Debt	3,658,050.39	2,846,043.64	812,006.75	28.53
Amortization of Debt Expense - Net	120,453.73	119,190.03	1,263.70	1.06
Other Interest Expenses	546,655.71	406,126.47	140,529.24	34.60
Total Interest Charges	4,325,159.83	3,371,360.14	953,799.69	28.29
Net Inc Before Cumulative Effect of Acctg Chg	3,437,782.73	6,835,672.52	(3,397,889.79)	(49.71)
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	3,437,782.73	6,835,672.52	(3,397,889.79)	(49.71)
Preferred Dividend Requirements	-	302,114.67	(302,114.67)	(100.00)
Earnings Available for Common	3,437,782.73	6,533,557.85	(3,095,775.12)	(47.38)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	850,567,494.36	859,992,600.88	(9,425,106.52)	(1.10)
Gas Operating Revenues	295,850,765.31	346,106,669.31	(50,255,904.00)	(14.52)
Total Operating Revenues	1,146,418,259.67	1,206,099,270.19	(59,681,010.52)	(4.95)
Fuel for Electric Generation	289,840,563.44	268,250,144.82	21,590,418.62	8.05
Power Purchased	73,387,093.27	105,530,578.70	(32,143,485.43)	(30.46)
Gas Supply Expenses	210,554,325.91	261,954,335.16	(51,400,009.25)	(19.62)
Other Operation Expenses	155,990,713.86	171,095,217.55	(15,104,503.69)	(8.83)
Maintenance	73,410,431.11	70,299,838.00	3,110,593.11	4.42
Depreciation	109,395,691.35	107,689,513.80	1,706,177.55	1.58
Amortization Expense	5,728,988.46	5,387,110.59	341,877.87	6.35
Regulatory Credits	(1,777,717.09)	(1,675,594.63)	(102,122.46)	6.09
Taxes				
Federal Income	33,224,888.50	45,174,805.67	(11,949,917.17)	(26.45)
State Income	7,510,437.72	8,565,665.24	(1,055,227.52)	(12.32)
Deferred Federal Income - Net	2,628,383.92	(2,315,455.67)	4,943,839.59	(213.51)
Deferred State Income - Net	707,739.94	(453,006.38)	1,160,746.32	(256.23)
Federal Income - Estimated	5,058,803.10	8,258,712.06	(3,199,908.96)	(38.75)
State Income - Estimated	963,581.54	1,835,269.34	(871,687.80)	(47.50)
Property and Other	21,233,603.44	19,653,535.85	1,580,067.59	8.04
Investment Tax Credit	8,779,626.00	-	8,779,626.00	100.00
Amortization of Investment Tax Credit	(3,627,883.85)	(3,697,902.17)	70,018.32	(1.89)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,632,576.23	1,514,654.86	117,921.37	7.79
Total Operating Expenses	994,088,754.16	1,066,062,816.72	(71,974,062.56)	(6.75)
Net Operating Income	152,329,505.51	140,036,453.47	12,293,052.04	8.78
Other Income Less Deductions	(251,114.99)	(826,427.07)	575,312.08	(69.61)
Income Before Interest Charges	152,078,390.52	139,210,026.40	12,868,364.12	9.24
Interest on Long Term Debt	40,481,174.52	31,243,032.66	9,238,141.86	29.57
Amortization of Debt Expense - Net	1,315,586.14	1,311,090.33	4,495.81	0.34
Other Interest Expenses	3,517,497.30	4,755,422.77	(1,237,925.47)	(26.03)
Total Interest Charges	45,314,257.96	37,309,545.76	8,004,712.20	21.45
Net Inc Before Cumulative Effect of Acctg Chg	106,764,132.56	101,900,480.64	4,863,651.92	4.77
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	106,764,132.56	101,900,480.64	4,863,651.92	4.77
Preferred Dividend Requirements	941,636.24	3,403,251.43	(2,461,615.19)	(72.33)
Earnings Available for Common	105,822,496.32	98,497,229.21	7,325,267.11	7.44

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	933,235,422.04	955,718,256.89	(22,482,834.85)	(2.35)
Gas Operating Revenues	344,973,674.66	444,351,650.72	(99,377,976.06)	(22.36)
Total Operating Revenues	1,278,209,096.70	1,400,069,907.61	(121,860,810.91)	(8.70)
Fuel for Electric Generation	314,161,262.85	296,688,621.94	17,472,640.91	5.89
Power Purchased	81,690,139.18	121,663,470.96	(39,973,331.78)	(32.86)
Gas Supply Expenses	243,883,452.51	345,008,661.46	(101,125,208.95)	(29.31)
Other Operation Expenses	174,736,960.66	194,825,376.87	(20,088,416.21)	(10.31)
Maintenance	82,146,246.86	74,908,902.91	7,237,343.95	9.66
Depreciation	119,688,447.81	117,746,184.58	1,942,263.23	1.65
Amortization Expense	6,209,233.39	5,833,254.11	375,979.28	6.45
Regulatory Credits	(2,363,058.97)	(14,021,976.72)	11,658,917.75	(83.15)
Taxes				
Federal Income	50,704,876.39	64,202,006.27	(13,497,129.88)	(21.02)
State Income	10,306,157.68	12,584,747.00	(2,278,589.32)	(18.11)
Deferred Federal Income - Net	(2,080,921.61)	(4,582,224.27)	2,501,302.66	(54.59)
Deferred State Income - Net	(52,377.18)	(1,278,397.26)	1,226,020.08	(95.90)
Federal Income - Estimated	(3,199,908.96)	2,159,680.06	(5,359,589.02)	(248.17)
State Income - Estimated	(871,687.80)	286,308.83	(1,157,996.63)	(404.46)
Property and Other	23,288,758.89	21,160,791.27	2,127,967.62	10.06
Investment Tax Credit	11,779,626.00	-	11,779,626.00	100.00
Amortization of Investment Tax Credit	(3,951,643.12)	(4,033,939.53)	82,296.41	(2.04)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,175,962.96	1,573,067.86	602,895.10	38.33
Total Operating Expenses	1,107,698,434.85	1,233,719,930.27	(126,021,495.42)	(10.21)
Net Operating Income	170,510,661.85	166,349,977.34	4,160,684.51	2.50
Other Income Less Deductions	(146,976.72)	(6,669.86)	(140,306.86)	2,103.60
Income Before Interest Charges	170,363,685.13	166,343,307.48	4,020,377.65	2.42
Interest on Long Term Debt	43,362,844.99	33,973,522.77	9,389,322.22	27.64
Amortization of Debt Expense - Net	1,434,776.17	1,430,283.01	4,493.16	0.31
Other Interest Expenses	3,873,816.05	5,323,619.64	(1,449,803.59)	(27.23)
Total Interest Charges	48,671,437.21	40,727,425.42	7,944,011.79	19.51
Net Inc Before Cumulative Effect of Acctg Chg	121,692,247.92	125,615,882.06	(3,923,634.14)	(3.12)
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	121,692,247.92	118,194,310.56	3,497,937.36	2.96
Preferred Dividend Requirements	1,243,749.48	3,676,197.99	(2,432,448.51)	(66.17)
Earnings Available for Common	120,448,498.44	114,518,112.57	5,930,385.87	5.18

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
NOVEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	672,960,370.81	617,945,169.80	639,104,729.77	620,981,498.44	624,478,727.65	604,960,615.08
Add:						
Credits from Income	3,437,782.73	6,835,672.52	106,764,132.56	101,900,480.64	121,692,247.92	118,194,310.56
FIN 48 Adjustment	(55,996.00)		202,186.00		202,186.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			316,636.25	806,523.51	406,249.48	1,075,364.65
Without Par Value						
Auction Rate			624,999.99	1,992,500.01	837,500.00	2,600,833.34
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,614.67		179,227.91		
Without Par Value						
Auction Rate	-	212,500.00		425,000.00		
Common Dividends						
Common Stock Without Par Value	-	-	65,000,000.00	95,000,000.00	65,000,000.00	95,000,000.00
Balance at End of Period	676,342,157.54	624,478,727.65	676,342,157.54	624,478,727.65	676,342,157.54	624,478,727.65

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF NOVEMBER 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,285,008,067.81	4,128,497,383.10
Less Reserves for Depreciation & Amortization	1,859,538,295.78	1,782,835,091.17
Total	2,425,469,772.03	2,345,662,291.93
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	17,337.47
Special Funds	20,081,928.30	1,975,812.41
Other	-	-
Total	20,688,093.50	2,587,435.88
Current and Accrued Assets		
Cash	3,404,206.59	4,218,628.91
Special Deposits	599,714.04	10,306,690.17
Temporary Cash Investments	35,779.47	5,435.03
Accounts Receivable-Less Reserve	139,693,992.24	138,072,516.38
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	544,170.02	19,459,420.53
Materials & Supplies-At Average Cost		
Fuel	45,275,739.84	38,915,540.08
Plant Materials & Operating Supplies	26,354,029.35	25,419,440.64
Stores Expense	4,552,901.38	4,233,297.69
Gas Stored Underground	98,116,218.34	97,519,753.37
Allowance Inventory	11,790.49	15,900.42
Prepayments	5,634,226.94	5,992,445.00
Miscellaneous Current & Accrued Assets	623,833.46	2,856,968.44
Total	324,846,602.16	347,016,036.66
Deferred Debits and Other		
Unamortized Debt Expense	9,798,737.06	8,166,098.84
Unamortized Loss on Bonds	19,186,932.06	19,708,409.03
Accumulated Deferred Income Taxes	55,486,371.60	87,972,002.53
Deferred Regulatory Assets	166,873,355.88	36,451,321.53
Other Deferred Debits	33,402,091.56	59,194,439.97
Total	284,747,488.16	211,492,271.90
Total Assets and Other Debits	3,055,751,955.85	2,906,758,036.37

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(13,933,101.00)	(59,095,244.19)
Retained Earnings	676,342,157.54	624,478,727.65
Total Common Equity	1,126,743,591.99	1,029,718,018.91
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	410,000,000.00	225,000,000.00
Total Capitalization	2,111,047,591.99	1,918,196,612.96
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	90,115,000.00	-
Notes Payable to Associated Companies	-	82,433,000.00
Notes Payable	-	-
Accounts Payable	76,957,517.59	70,977,651.77
Accounts Payable to Associated Companies	29,032,909.38	46,554,714.67
Customer Deposits	19,305,082.59	18,036,235.48
Taxes Accrued	23,564,776.20	20,781,473.18
Interest Accrued	7,458,114.07	5,962,264.87
Dividends Declared	-	604,226.46
ST Obligations Under Capital Leases	420,119.91	-
Misc. Current & Accrued Liabilities	10,836,428.44	7,833,780.81
Total	257,689,948.18	254,433,347.24
Deferred Credits and Other		
LT Obligations Under Capital Leases	47,299.00	-
Accumulated Deferred Income Taxes	393,259,391.03	400,791,477.20
Investment Tax Credit	46,221,979.29	38,393,996.41
Regulatory Liabilities	54,433,134.89	48,319,799.13
Customer Advances for Construction	16,552,345.33	13,916,170.19
Asset Retirement Obligations	29,470,590.33	27,883,541.30
Other Deferred Credits	49,965,155.65	77,276,402.96
Misc. Long-Term Liabilities	6,585,931.00	69,103,897.15
Accum Provision for Post-Retirement Benefits	90,478,589.16	58,442,791.83
Total	687,014,415.68	734,128,076.17
Total Liabilities and Other Credits	3,055,751,955.85	2,906,758,036.37

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
NOVEMBER 30, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(13,933,101.00)		
Retained Earnings			676,342,157.54		
Total Common Equity			1,126,743,591.99	51.19	53.38
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.09	27.20
LT Notes Payable to Associated Companies			410,000,000.00	18.63	19.42
Total Capitalization			2,111,047,591.99	95.91	100.00
ST Notes Payable to Associated Companies			90,115,000.00	4.09	
Total Capitalization and Short-Term Debt			2,201,162,591.99	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,285,008,067 81	4,285,008,067 81
Reserves for Depreciation and Amortization		(1,859,538,295 78)
Electric	(1,568,442,687 51)	
Gas	(205,237,208 11)	
Common	(64,751,853 86)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(21,105,646 30)	
INVESTMENTS - AT COST		20,688,093 50
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	20,081,928 30	
CASH		3,404,206 59
JP Morgan Chase	15,077 30	
BB&T	11,678 54	
Bank of America	99,491 72	
Town and Country Bank	22,617 97	
US Bank	3,168,182 21	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		599,714 04
MAN Margin Call	599,714 04	
TEMPORARY CASH INVESTMENTS		35,779 47
Other	35,779 47	
ACCOUNTS RECEIVABLE - LESS RESERVE		139,693,992 24
Working Funds	21,280 00	
Customers-Active	68,499,791 95	
Wholesale Sales	4,086,690 70	
Transmission Sales	164,616 40	
Unbilled Revenues	50,885,000 00	
Employee Computer Loans	96,958 19	
Damage Claims	847,061 59	
RAR Settlements	1,038,234 00	
Tax Refunds	1,860,522 77	
IMEA	3,343,715 33	
IMPA	3,504,455 49	
Other	6,759,407 72	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(678,087 00)	
Accrual	(1,975,728 88)	
Charged Off	4,232,668 36	
Recoveries	(2,256,939 48)	
A/R Miscellaneous	(1,116,766 00)	
Interest and Dividends Receivable	7,716 41	
Rents Receivable	373,394 69	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		544,170 02
E ON US Services/Kentucky Utilities	544,170 02	
FUEL		45,275,739 84
Coal 1,226,249 48 Tons @ $35 79; MMBTU 28,290,866 98 @ 155 13¢	43,887,637 14	
Fuel Oil 166,493 Gallons @ 201 83¢	336,039 54	
Gas Pipeline 131,307 00 MCF @ $8 01	1,052,063 16	
PLANT MATERIALS AND OPERATING SUPPLIES		26,354,029 35
Regular Materials and Supplies	26,023,810 49	
Limestone 48,042 91 Tons @ $6 87	330,218 86	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4.552,901 38
Stores Expense Undistributed	4,552,901 38	
GAS STORED UNDERGROUND - CURRENT		98.116,218 34
Gas St. Underground*13,617.514 MCF (14.73 psia) @ $7 21	98,116,218 34	
ALLOWANCE INVENTORY		11.790 49
Allowance Inventory	11,790 49	
PREPAYMENTS		5.634,226 94
Insurance	2.770,328 14	
Taxes	1,131,309 57	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90.000 00	
Vehicle License	16,012 72	
Other	1,346.576 48	
MISCELLANEOUS CURRENT ASSETS		623,833 46
Miscellaneous Current Assets	3.834 01	
Derivative Asset - Non-Hedging	619,999 45	
UNAMORTIZED DEBT EXPENSE		9,798,737 06
Pollution Control Series Y due May 1, 2027	464,002 49	
Pollution Control Series Z due Aug. 1, 2030	867,620 99	
Pollution Control Series AA due Sept 1, 2027	391,821 00	
Pollution Control Series BB due Sept 1, 2026	185,105 36	
Pollution Control Series CC due Sept 1, 2026	201,344 23	
Pollution Control Series DD due Nov 1, 2027	218,019 02	
Pollution Control Series EE due Nov 1, 2027	218,052 67	
Pollution Control Series FF due Oct 1, 2032	914,748 48	
Pollution Control Series GG due Oct 1, 2033	3.034,769 85	
Pollution Control Series HH due Feb 1, 2035	995,050 40	
Pollution Control Bonds due Jun 1, 2033	590,082 04	
Pollution Control Bonds due Jun 1, 2033	552,410 56	
Pollution Control Bonds due Jun 1, 2033	1.165,709 97	
UNAMORTIZED LOSS ON BONDS		19,186,932 06
Refinanced and Called Bonds	19,186.932 06	
OTHER DEFERRED DEBITS	33,402,091 56	33,402.091 56
DEFERRED REGULATORY ASSET		166.873,355 88
Asset Retirement Obligations		
Electric	18,832,220 34	
Gas	5,162.140 55	
Common	23,012 30	
Pension & Postretirement Benefits	126.288.471 00	
ECR Ash Hauling	3,428,495 29	
MISO Exit Fee	13,139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		55,486.371 60
Federal		
Electric	39,383,565 02	
Gas	7.638,457 16	
State		
Electric	7.335,462 81	
Gas	1,128,886 61	

*Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788.845 00	10,810,000

Total Assets and Other Debits	3,055,751,955.85	3,055,751,955.85

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,126,743,591.99
Common Stock	425,170,424.09	
Retained Earnings	676,342,157.54	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(13,933,101.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	410,000,000.00	410,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		90,115,000.00
Money Pool Payable	90,115,000.00	
ACCOUNTS PAYABLE		76,957,517.59
Regular	73,334,877.57	
Salaries and Wages Accrued	2,708,458.44	
Tax Collections - Payable	914,181.58	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		29,032,909.38
E.ON US Services/Kentucky Utilities	29,032,909.38	
CUSTOMERS' DEPOSITS	19,305,082.59	19,305,082.59
TAXES ACCRUED	23,564,776.20	23,564,776.20
INTEREST ACCRUED		7,458,114.07
Loan Agreement - Pol. Cont. Bonds 2000 Series A	55,902.78	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	92,594.46	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	4,602.92	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	196,680.84	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	240,387.67	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	308,421.90	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	305,948.23	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	48,514.03	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	298,666.67	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	19,722.25	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	3,435.86	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	3,911.14	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	1,410,666.65	
Interest Rate Swaps	199,150.62	
Fidelia	3,497,375.53	
Customers' Deposits	772,132.52	
ST OBLIGATIONS UNDER CAPITAL LEASES	420,119.91	420,119.91
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,836,428.44
Customer Overpayments	2,989,725.19	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,642,413.83	
Derivative Liabilities - Non-Hedging	365,794.80	
Postretirement Benefits - Current	2,248,334.00	
Other	340,160.62	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	47,299.00	47,299.00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		16,552,345.33
Line Extensions		
Electric	799,072.49	
Gas	8,221,529.65	
Customer Advances - Arena	7,531,743.19	
ASSET RETIREMENT OBLIGATIONS		29,470,590.33
Electric	21,706,008.94	
Gas	7,738,996.35	
Common	25,585.04	
OTHER DEFERRED CREDITS	49,965,155.65	49,965,155.65
REGULATORY LIABILITIES		54,433,134.89
Asset Retirement Obligations		
Electric	223,349.96	
Gas	105,608.18	
Deferred Taxes		
Federal		
Electric	26,695,003.75	
Gas	1,705,343.50	
State		
Electric	18,829,272.00	
Gas	2,697,123.50	
MISO Schedule 10 Charges	4,177,434.00	
INVESTMENT TAX CREDIT		46,221,979.29
Job Development Credit		
Electric	33,281,558.30	
Gas	1,160,794.99	
Advanced Coal Credit	11,779,626.00	
ACCUMULATED DEFERRED INCOME TAXES		393,259,391.03
Federal		
Electric	292,562,346.01	
Gas	43,927,433.65	
Common	(1.00)	
State		
Electric	49,863,054.87	
Gas	6,906,557.50	
MISCELLANEOUS LONG-TERM LIABILITIES		6,585,931.00
Workers' Compensation	6,030,948.00	
Uncertain Tax Positions	554,983.00	
ACCUMULATED PROVISION FOR BENEFITS		90,478,589.16
Pension Payable	(3,967,637.00)	
Postretirement Benefits - FAS 106	90,826,183.16	
Post Employment Benefits Payable	3,620,043.00	
Total Liabilities and Other Credits	3,055,751,955.85	3,055,751,955.85

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
NOVEMBER 30, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	106,764,132.56	101,900,480.64
Items not requiring (providing) cash currently:		
Depreciation	109,395,691.35	107,689,513.80
Amortization	5,728,988.46	5,387,110.59
Deferred income taxes - net	5,174,525.36	(8,882,923.05)
Investment tax credit - net	5,151,742.15	(3,697,902.17)
Other	(10,824,298.26)	(5,548,236.61)
Change in receivables	44,323,339.28	110,037,195.83
Change in inventory	(23,903,029.98)	25,162,804.61
Change in allowance inventory	3,612.51	5,542.34
Change in payables and accrued expenses	(100,191,434.23)	(77,695,909.25)
Change in other regulatory assets	(3,253,652.34)	(8,931,826.05)
Change in other regulatory liabilities	(937,435.97)	6,426,381.03
Change in other deferred debits	248,226.45	4,627,439.01
Change in other deferred credits	(1,312,879.64)	35,642,207.74
Other	(2,268,737.81)	(1,253,210.89)
Net cash provided (used) by operating activities	134,098,789.89	290,868,667.57
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(179,190,190.80)	(132,715,758.81)
Change in long-term investments	5,458.27	(1,856,855.45)
Change in restricted cash	(5,075,794.43)	(488,842.03)
Net cash provided (used) by investing activities	(184,260,526.96)	(135,061,456.29)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	308,454,141.72	(1,965.17)
Net increase in short-term debt	22,291,000.00	-
Net increase in short-term capital lease obligations	420,119.91	-
Net increase in long-term capital lease obligations	47,299.00	-
Payments for retirement of long-term debt	(126,000,000.00)	-
Payments for retirement of preferred stock	(91,643,112.60)	(1,250,000.00)
Net decrease in short-term debt	-	(58,812,000.00)
Dividends on preferred stock	(4,416,711.93)	(3,617,864.65)
Dividends on common stock	(65,000,000.00)	(95,000,000.00)
Net cash provided (used) by financing activities	44,152,736.10	(158,681,829.82)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,009,000.97)	(2,874,618.54)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,439,986.06	4,224,063.94

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
NOVEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	92,613.70	350,482.41	996,651.22	447,328.99	1,079,415.60
1992 Series A Variable TC	-	175,520.56	670,142.71	1,900,167.07	854,819.42	2,058,189.02
1993 Series A Variable Rate	-	103,574.79	392,885.10	1,119,630.04	500,973.21	1,207,822.93
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	74,131.95	73,958.34	855,937.51	793,833.39	933,055.57	857,291.71
2000 Series A Variable TC	275,468.47	253,477.29	3,079,987.84	2,737,211.94	3,338,905.06	2,952,075.03
2001 Series A Variable Rate	32,992.37	30,432.68	366,278.47	324,978.31	398,414.79	351,445.19
2001 Series A Variable Rate	68,609.59	66,205.49	760,364.43	716,887.00	828,277.44	776,207.56
2001 Series A Variable Rate TC	83,856.16	80,917.81	929,334.25	876,195.21	1,012,339.04	948,765.09
2001 Series B Variable Rate	107,589.04	103,561.65	1,186,816.48	1,128,747.28	1,293,830.17	1,223,147.96
2001 Series B Variable Rate TC	106,726.04	103,561.65	1,184,342.80	1,128,428.79	1,291,356.49	1,221,984.95
2002 Series A Variable Rate TC	139,834.59	121,228.02	1,465,574.96	1,320,991.64	1,593,218.26	1,429,868.56
2003 Series A Variable Rate	379,520.00	373,653.34	4,331,075.59	4,000,088.90	4,715,751.14	4,318,595.57
2005 Series A Variable Rate	113,166.67	116,222.20	1,333,672.22	1,229,594.40	1,455,938.88	1,333,483.28
2007 Series A Variable Rate	92,948.33	-	684,077.02	-	684,077.02	-
2007 Series B Variable Rate	103,840.00	-	778,985.80	-	778,985.80	-
2007 Series A Variable Rate (4.6%)	230,000.00	-	1,679,000.04	-	1,679,000.04	-
Interest Rate Swaps	199,150.61	141,324.45	1,447,642.89	1,825,200.26	1,562,208.00	2,054,891.65
Notes/Debentures	16,136.02	-	3,365,651.19	-	3,365,651.19	-
Fidelia	1,634,080.55	911,875.01	15,272,950.56	10,030,625.11	16,184,825.57	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.66	345,972.25	1,113,802.10	443,888.91	1,217,838.55
Total	3,658,050.39	2,846,043.64	40,481,174.52	31,243,032.66	43,362,844.99	33,973,522.77
Amortization of Debt Expense - Net						
Amortization of Debt Expense	33,752.38	34,054.02	366,881.54	374,594.22	400,935.56	408,643.88
Amort. of Loss on Reacquired Debt	86,701.35	85,136.01	948,704.60	936,496.11	1,033,840.61	1,021,639.13
Total	120,453.73	119,190.03	1,315,586.14	1,311,090.33	1,434,776.17	1,430,283.01
Other Interest Charges						
Customers' Deposits	82,085.05	74,781.01	883,356.98	823,316.15	962,521.02	897,919.49
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	2,344,010.99	(1,058,734.31)	2,344,010.99
Other Tax Deficiencies	-	-	1,961.30	213.87	1,961.30	(6,168.13)
Gas Refunds	-	475.76	2,447.64	1,903.04	2,923.40	1,903.04
Interest on Debt to Associated Companies	464,570.66	330,869.70	3,679,884.13	1,585,978.72	3,956,563.08	2,085,954.25
Other	-	-	8,581.56	-	8,581.56	-
Total	546,655.71	406,126.47	3,517,497.30	4,755,422.77	3,873,816.05	5,323,619.64
Total Interest	4,325,159.83	3,371,360.14	45,314,257.96	37,309,545.76	48,671,437.21	40,727,425.42

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
NOVEMBER 30, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,448,547.16	1,275,504.17	13,690,084.03	12,728,861.34
Unemployment	4,369.25	(10,828.92)	115,557.39	135,053.86
Federal Old Age and Survivors Insurance	537,655.26	438,992.80	5,647,635.37	5,297,323.76
Public Service Commission Fee	161,615.66	158,705.95	1,760,314.02	1,622,229.25
Federal Income	2,319,851.29	4,525,356.40	38,283,691.60	53,433,517.73
State Income	441,876.44	1,005,634.76	8,474,019.26	10,400,934.58
Miscellaneous	132.56	-	20,012.63	(129,932.36)
Total Charged to Operating Expense	4,914,047.62	7,393,365.16	67,991,314.30	83,487,988.16
Taxes Charged to Other Accounts	228,030.65	211,435.85	1,444,995.17	1,309,803.26
Taxes Accrued on Intercompany Accounts	(158,475.17)	(167,237.12)	(2,141,113.11)	(2,042,058.32)
Total Taxes Charged	4,983,603.10	7,437,563.89	67,295,196.36	82,755,733.10

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	13,793,477.56	17,668,549.26	10,050,897.54
State Unemployment	18,782.64	19,783.42	38,202.00	364.06
Federal Unemployment	29,205.50	25,477.74	54,197.74	485.50
Federal Old Age and Survivors	561,717.23	4,878,782.51	4,929,932.73	510,567.01
Federal Income	6,350,985.46	37,075,135.79	34,438,492.20	8,987,629.05
State Income	7,726,946.43	8,176,440.56	12,175,139.00	3,728,247.99
Kentucky Sales and Use Tax	10,878.70	3,254,378.19	2,978,671.84	286,585.05
Miscellaneous	0.37	71,721.19	71,721.56	(0.00)
Totals	28,624,485.57	67,295,196.96	72,354,906.33	23,564,776.20

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
NOVEMBER 30, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	14,009,964.80	(3,451,047.88)	(863.74)	10,558,053.18	1,955,815,978.51
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	315,143.06	(158,697.00)	-	156,446.06	225,593,229.05
Transmission	240,067,695.28	15,275,701.14	(794,761.48)	(3,177.21)	14,477,762.45	254,545,457.73
Distribution	754,284,748.12	11,923,829.62	(4,450,962.31)	(60,096.92)	7,412,770.39	761,697,518.51
General	16,886,738.80	81,698.49	(275,858.33)	(36,652.65)	(230,812.49)	16,655,926.31
Total Electric	3,199,821,117.16	41,672,606.30	(9,131,327.00)	(100,797.02)	32,440,482.28	3,232,261,599.44
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	278,090.01	(69,306.58)	-	208,783.43	61,257,073.20
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	22,215,712.13	(1,600,443.19)	(2,319.15)	20,612,949.79	460,733,739.17
General	10,346,233.87	298,651.00	(1,571,058.35)	(33,407.63)	(1,305,814.98)	9,040,418.89
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	22,800,269.88	(3,240,808.12)	(35,726.78)	19,523,734.98	546,074,316.84
Common						
Intangible	28,877,505.07	3,467,608.47	-	-	3,467,608.47	32,345,113.54
General	150,813,423.54	5,778,913.80	(4,177,680.34)	(19,559.23)	1,581,674.23	152,395,097.77
Total Common	179,690,928.61	9,246,522.27	(4,177,680.34)	(19,559.23)	5,049,282.70	184,740,211.31
Total Plant in Service	3,906,062,627.63	73,719,398.45	(16,549,815.46)	(156,083.03)	57,013,499.96	3,963,076,127.59
Construction Work In Progress						
Electric	154,377,558.86	88,052,052.73	-	-	88,052,052.73	242,429,611.59
Gas	54,810,960.24	4,238,514.31	-	-	4,238,514.31	59,049,474.55
Common	8,684,890.86	11,767,963.22	-	-	11,767,963.22	20,452,854.08
Total Construction Work In Progress	217,873,409.96	104,058,530.26	-	-	104,058,530.26	321,931,940.22
Total Utility Plant at Original Cost	4,123,936,037.59	177,777,928.71	(16,549,815.46)	(156,083.03)	161,072,030.22	4,285,008,067.81

LOUISVILLE GAS AN[illegible]ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
NOVEMBER 30, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(77,086,341.48)	9,131,327.00	-	-	-	-	(5,897,944.35)	(1,373,412,240.62)
Electric - ARO Steam	(2,049,614.55)	(144,734.08)	-	-	-	-	-	-	(2,194,348.63)
Electric - ARO Hydro	(15,828.80)	(948.06)	-	-	-	-	-	-	(16,776.86)
Electric - ARO Other Production	(108,105.20)	(6,450.42)	-	-	-	-	-	-	(114,555.62)
Electric - ARO Transmission	(2,165.47)	(156.72)	-	-	-	-	-	-	(2,322.19)
Electric - ARO Distribution	(12,001.89)	(335.17)	-	-	-	-	-	-	(12,337.06)
Gas	(148,577,916.87)	(9,881,899.92)	3,240,808.12	-	-	-	-	-	(155,219,008.67)
Gas - ARO Underground Storage	(392,040.25)	(8,326.34)	-	-	-	-	-	-	(400,366.59)
Gas - ARO Distribution	(19,101.73)	(59.89)	-	-	-	-	-	-	(19,161.62)
Common - ARO	(1,130.96)	(31.46)	-	-	-	-	-	-	(1,162.42)
Common	(62,084,425.21)	(6,852,510.40)	4,177,680.34	-	-	-	-	-	(64,759,255.27)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(93,981,793.94)	16,549,815.46	-	-	-	-	(5,897,944.35)	(1,596,151,535.55)
Salvage Reserves									
Steam Production	(46,966,253.01)	(5,281,484.43)	-	-	-	841,405.85	(269,883.65)	-	(51,676,215.24)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	2,644.83	-	-	(2,090,919.89)
Transmission	(16,367,877.32)	(1,005,005.74)	-	-	-	510,412.94	-	-	(16,862,470.12)
Distribution	(132,166,536.49)	(5,563,024.61)	-	-	-	2,092,725.45	(57,880.40)	-	(135,694,716.05)
Distribution General	89,695.45	2,934.23	-	-	-	18,347.13	-	-	110,976.81
Gas Stored Underground	249,305.84	(207,314.29)	-	-	-	21,517.01	-	-	63,508.56
Gas Transmission	(2,644,672.08)	(95,296.69)	-	-	-	-	-	-	(2,739,968.77)
Gas Distribution	(47,306,815.37)	(3,945,397.34)	-	-	-	117,959.44	(4,646.44)	-	(51,138,899.71)
Gas General	148,519.46	38,695.02	-	-	-	-	-	-	187,214.48
Common	(354,458.62)	(36,722.29)	-	-	-	209,955.86	-	-	(181,225.05)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(16,092,616.14)	-	-	-	3,814,968.51	(332,410.49)	-	(260,545,428.12)
Total Reserves									
Electric	(1,499,774,246.93)	(89,085,546.48)	9,131,327.00	-	-	3,465,536.20	(327,764.05)	(5,897,944.35)	(1,582,488,638.61)
Gas	(198,542,721.00)	(14,099,599.45)	3,240,808.12	-	-	139,476.45	(4,646.44)	-	(209,266,682.32)
Common	(62,440,014.79)	(6,889,264.15)	4,177,680.34	-	-	209,955.86	-	-	(64,941,642.74)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(110,074,410.08)	16,549,815.46	-	-	3,814,968.51	(332,410.49)	(5,897,944.35)	(1,856,696,963.67)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(1,153,180.93)	(4,587.92)	497.82	37,152.02	1,453,771.19
Gas	(465,950.02)	-	-	620,863.56	(46,692.05)	17,914.15	-	-	126,135.64
Common	(502,243.45)	-	-	587,479.60	(20,862.21)	(64,549.29)	-	-	(175.35)
Total 108001 RWIP	2,800,302.69	-	-	13,737.20	(1,220,735.19)	(51,223.06)	497.82	37,152.02	1,579,731.48
108901									
Electric	8,273,600.70	-	-	6,238,184.17	3,912,598.53	(3,074,208.63)	(608,153.51)	(2,149,841.35)	12,592,179.91
Gas	3,107,219.25	-	-	198,479.08	(84,583.36)	682,223.60	-	-	3,903,338.57
Common	(4,637,184.09)	-	-	(5,698,720.60)	(191,893.65)	10,714,962.57	2,800.00	-	189,964.23
Total 108901 RWIP	6,743,635.86	-	-	737,942.65	3,636,121.52	8,322,977.54	(605,353.51)	(2,149,841.35)	16,685,482.71
Total RWIP	9,543,938.55	-	-	751,679.85	2,415,386.33	8,271,754.48	(604,855.69)	(2,112,689.33)	18,265,214.19
YTD Activity	(1,751,213,044.17)	(110,074,410.08)	16,549,815.46	751,679.85	2,415,386.33	12,086,722.99	(937,266.18)	(8,010,633.68)	(1,838,431,749.48)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(5,728,988.46)	-	-	-	-	-	-	(21,105,646.30)
Total Reserve For Amortization Of Utility Plant in Service	(15,377,557.84)	(5,728,988.46)	-	-	-	-	-	-	(21,106,546.30)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(115,803,398.54)	16,549,815.46	751,679.85	2,415,386.33	12,086,722.99	(937,266.18)	(8,010,633.68)	(1,859,538,295.78)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,425,469,772.03

LG&E Monthly Report to KPSC – October 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

October 31, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	70,611,979.35	72,498,573.15	(1,886,593.80)	(2.60)
Gas Operating Revenues	17,472,269.50	24,230,134.57	(6,757,865.07)	(27.89)
Total Operating Revenues	88,084,248.85	96,728,707.72	(8,644,458.87)	(8.94)
Fuel for Electric Generation	23,481,008.81	24,369,740.98	(888,732.17)	(3.65)
Power Purchased	7,434,377.06	9,740,688.60	(2,306,311.54)	(23.68)
Gas Supply Expenses	11,383,772.35	16,923,570.67	(5,539,798.32)	(32.73)
Other Operation Expenses	13,965,506.36	14,008,059.30	(42,552.94)	(0.30)
Maintenance	7,734,288.09	5,481,466.63	2,252,821.46	41.10
Depreciation	10,588,169.72	9,957,090.96	631,078.76	6.34
Amortization Expense	472,509.89	524,498.34	(51,988.45)	(9.91)
Regulatory Credits	(163,026.95)	(152,400.80)	(10,626.15)	6.97
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	2,738,951.81	3,733,355.66	(994,403.85)	(26.64)
State Income - Estimated	521,705.10	829,634.58	(307,929.48)	(37.12)
Property and Other	2,132,090.24	1,800,200.70	331,889.54	18.44
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(329,198.00)	(335,139.00)	5,941.00	(1.77)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.36	10,570.77	7.67
Total Operating Expenses	80,108,495.61	87,018,536.98	(6,910,041.37)	(7.94)
Net Operating Income	7,975,753.24	9,710,170.74	(1,734,417.50)	(17.86)
Other Income Less Deductions	(826,738.39)	(1,574,147.92)	747,409.53	(47.48)
Income Before Interest Charges	7,149,014.85	8,136,022.82	(987,007.97)	(12.13)
Interest on Long Term Debt	3,752,474.00	2,934,155.99	818,318.01	27.89
Amortization of Debt Expense - Net	120,453.73	119,190.03	1,263.70	1.06
Other Interest Expenses	488,404.07	333,237.90	155,166.17	46.56
Total Interest Charges	4,361,331.80	3,386,583.92	974,747.88	28.78
Net Inc Before Cumulative Effect of Acctg Chg	2,787,683.05	4,749,438.90	(1,961,755.85)	(41.31)
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	2,787,683.05	4,749,438.90	(1,961,755.85)	(41.31)
Preferred Dividend Requirements	-	302,113.24	(302,113.24)	(100.00)
Earnings Available for Common	2,787,683.05	4,447,325.66	(1,659,642.61)	(37.32)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	788,616,970.67	776,759,617.84	11,857,352.83	1.53
Gas Operating Revenues	257,077,947.55	312,255,453.85	(55,177,506.30)	(17.67)
Total Operating Revenues	1,045,694,918.22	1,089,015,071.69	(43,320,153.47)	(3.98)
Fuel for Electric Generation	267,932,445.96	244,083,258.90	23,849,187.06	9.77
Power Purchased	66,883,322.36	90,450,032.45	(23,566,710.09)	(26.05)
Gas Supply Expenses	182,539,158.45	235,637,202.40	(53,098,043.95)	(22.53)
Other Operation Expenses	142,447,146.22	154,693,411.25	(12,246,265.03)	(7.92)
Maintenance	64,701,622.16	63,702,982.43	998,639.73	1.57
Depreciation	99,433,672.94	97,856,849.82	1,576,823.12	1.61
Amortization Expense	5,227,638.69	4,905,362.53	322,276.16	6.57
Regulatory Credits	(1,614,690.14)	(1,523,189.04)	(91,501.10)	6.01
Taxes				
Federal Income	33,224,888.50	45,174,805.67	(11,949,917.17)	(26.45)
State Income	7,510,437.72	8,565,665.24	(1,055,227.52)	(12.32)
Deferred Federal Income - Net	2,628,383.92	(2,315,455.67)	4,943,839.59	(213.51)
Deferred State Income - Net	707,739.94	(453,006.38)	1,160,746.32	(256.23)
Federal Income - Estimated	2,738,951.81	3,733,355.66	(994,403.85)	(26.64)
State Income - Estimated	521,705.10	829,634.58	(307,929.48)	(37.12)
Property and Other	19,081,283.55	17,791,161.85	1,290,121.70	7.25
Investment Tax Credit	8,779,626.00	-	8,779,626.00	100.00
Amortization of Investment Tax Credit	(3,298,685.85)	(3,362,763.17)	64,077.32	(1.91)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,484,235.10	1,376,884.50	107,350.60	7.80
Total Operating Expenses	900,375,789.74	960,141,586.95	(59,765,797.21)	(6.22)
Net Operating Income	145,319,128.48	128,873,484.74	16,445,643.74	12.76
Other Income Less Deductions	(1,003,680.52)	129,509.00	(1,133,189.52)	(874.99)
Income Before Interest Charges	144,315,447.96	129,002,993.74	15,312,454.22	11.87
Interest on Long Term Debt	36,823,124.13	28,396,989.02	8,426,135.11	29.67
Amortization of Debt Expense - Net	1,195,132.41	1,191,900.30	3,232.11	0.27
Other Interest Expenses	2,970,841.59	4,349,296.30	(1,378,454.71)	(31.69)
Total Interest Charges	40,989,098.13	33,938,185.62	7,050,912.51	20.78
Net Inc Before Cumulative Effect of Acctg Chg	103,326,349.83	95,064,808.12	8,261,541.71	8.69
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	103,326,349.83	95,064,808.12	8,261,541.71	8.69
Preferred Dividend Requirements	941,636.24	3,101,136.76	(2,159,500.52)	(69.64)
Earnings Available for Common	102,384,713.59	91,963,671.36	10,421,042.23	11.33

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	954,517,881.39	951,442,191.04	3,075,690.35	0.32
Gas Operating Revenues	340,052,072.36	468,403,562.76	(128,351,490.40)	(27.40)
Total Operating Revenues	1,294,569,953.75	1,419,845,753.80	(125,275,800.05)	(8.82)
Fuel for Electric Generation	316,420,031.29	296,418,617.59	20,001,413.70	6.75
Power Purchased	90,266,914.52	121,418,251.33	(31,151,336.81)	(25.66)
Gas Supply Expenses	242,185,417.81	368,811,350.92	(126,625,933.11)	(34.33)
Other Operation Expenses	177,595,199.32	197,880,606.12	(20,285,406.80)	(10.25)
Maintenance	80,034,293.48	74,294,996.42	5,739,297.06	7.73
Depreciation	119,559,093.38	117,828,149.23	1,730,944.15	1.47
Amortization Expense	6,189,631.68	5,819,295.18	370,336.50	6.36
Regulatory Credits	(2,352,437.61)	(13,938,746.72)	11,586,309.11	(83.12)
Taxes				
Federal Income	50,704,876.39	64,202,006.27	(13,497,129.88)	(21.02)
State Income	10,306,157.68	12,584,747.00	(2,278,589.32)	(18.11)
Deferred Federal Income - Net	(2,080,921.61)	(4,582,224.27)	2,501,302.66	(54.59)
Deferred State Income - Net	(52,377.18)	(1,278,397.26)	1,226,020.08	(95.90)
Federal Income - Estimated	(994,403.85)	113,851.05	(1,108,254.90)	(973.43)
State Income - Estimated	(307,929.48)	(89,604.69)	(218,324.79)	243.65
Property and Other	22,998,813.00	21,023,796.85	1,975,016.15	9.39
Investment Tax Credit	11,779,626.00	-	11,779,626.00	100.00
Amortization of Investment Tax Credit	(3,957,584.12)	(4,039,178.53)	81,594.41	(2.02)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,165,392.19	1,493,710.50	671,681.69	44.97
Total Operating Expenses	1,119,906,700.20	1,256,956,620.92	(137,049,920.72)	(10.90)
Net Operating Income	174,663,253.55	162,889,132.88	11,774,120.67	7.23
Other Income Less Deductions	(1,855,478.32)	1,057,312.34	(2,912,790.66)	(275.49)
Income Before Interest Charges	172,807,775.23	163,946,445.22	8,861,330.01	5.41
Interest on Long Term Debt	42,550,838.24	33,744,357.81	8,806,480.43	26.10
Amortization of Debt Expense - Net	1,433,512.47	1,430,287.67	3,224.80	0.23
Other Interest Expenses	3,733,286.81	6,143,492.92	(2,410,206.11)	(39.23)
Total Interest Charges	47,717,637.52	41,318,138.40	6,399,499.12	15.49
Net Inc Before Cumulative Effect of Acctg Chg	125,090,137.71	122,628,306.82	2,461,830.89	2.01
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	125,090,137.71	115,206,735.32	9,883,402.39	8.58
Preferred Dividend Requirements	1,545,864.15	3,647,029.88	(2,101,165.73)	(57.61)
Earnings Available for Common	123,544,273.56	111,559,705.44	11,984,568.12	10.74

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
OCTOBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	670,172,687.76	613,497,844.14	639,104,729.77	620,981,498.44	617,945,169.80	601,385,464.36
Add:						
Credits from Income	2,787,683.05	4,749,438.90	103,326,349.83	95,064,808.12	125,090,137.71	115,206,735.32
FIN 48 Adjustment	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			316,636.25	806,523.51	495,864.15	1,075,363.21
Without Par Value						
Auction Rate			624,999.99	1,992,500.01	1,050,000.00	2,571,666.67
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,613.24		89,613.24		
Without Par Value						
Auction Rate	-	212,500.00		212,500.00		
Common Dividends						
Common Stock Without Par Value	-	-	65,000,000.00	95,000,000.00	65,000,000.00	95,000,000.00
Balance at End of Period	672,960,370.81	617,945,169.80	672,960,370.81	617,945,169.80	672,960,370.81	617,945,169.80

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF OCTOBER 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,271,033,669.56	4,111,500,955.85
Less Reserves for Depreciation & Amortization	1,854,675,192.61	1,777,212,433.05
Total	2,416,358,476.95	2,334,288,522.80
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	37,713.74
Special Funds	18,926,435.46	1,322,515.67
Other	-	-
Total	19,532,600.66	1,954,515.41
Current and Accrued Assets		
Cash	2,622,328.85	5,096,174.51
Special Deposits	1,219,155.66	9,195,036.95
Temporary Cash Investments	35,642.67	5,412.55
Accounts Receivable-Less Reserve	121,960,497.24	111,372,098.57
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	74,186.13	40,046,683.28
Materials & Supplies-At Average Cost		
Fuel	44,038,169.12	40,448,358.87
Plant Materials & Operating Supplies	26,234,921.95	24,906,877.60
Stores Expense	4,570,683.69	4,296,129.36
Gas Stored Underground	102,511,420.41	100,977,059.22
Allowance Inventory	12,078.67	16,434.52
Prepayments	3,516,638.13	3,372,461.41
Miscellaneous Current & Accrued Assets	180,802.72	3,259,323.46
Total	306,976,525.24	342,992,050.30
Deferred Debits and Other		
Unamortized Debt Expense	9,832,489.44	8,200,152.84
Unamortized Loss on Bonds	19,273,633.37	19,793,545.03
Accumulated Deferred Income Taxes	52,312,663.60	86,618,553.53
Deferred Regulatory Assets	166,543,940.10	36,156,591.61
Other Deferred Debits	36,974,477.68	60,645,477.45
Total	284,937,204.19	211,414,320.46
Total Assets and Other Debits	3,027,804,807.04	2,890,649,408.97

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(8,948,177.00)	(57,026,572.19)
Retained Earnings	672,960,370.81	617,945,169.80
Total Common Equity	1,128,346,729.26	1,025,253,133.06
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,065,650,729.26	1,913,731,727.11
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	111,608,000.00	-
Notes Payable to Associated Companies	-	89,247,000.00
Notes Payable	-	-
Accounts Payable	79,555,449.70	67,488,077.19
Accounts Payable to Associated Companies	29,788,134.00	45,110,125.76
Customer Deposits	19,203,998.92	17,980,633.48
Taxes Accrued	22,926,189.00	13,986,385.17
Interest Accrued	5,374,203.96	4,702,569.09
Dividends Declared	-	302,111.80
ST Obligations Under Capital Leases	434,802.13	-
Misc. Current & Accrued Liabilities	11,813,206.40	7,497,407.84
Total	280,703,984.11	247,564,310.33
Deferred Credits and Other		
LT Obligations Under Capital Leases	70,949.00	-
Accumulated Deferred Income Taxes	393,203,395.03	400,791,477.20
Investment Tax Credit	46,551,177.29	38,729,135.41
Regulatory Liabilities	54,147,927.16	48,034,591.40
Customer Advances for Construction	18,161,712.86	9,779,822.70
Asset Retirement Obligations	29,323,324.44	27,776,403.05
Other Deferred Credits	42,631,589.89	76,674,571.88
Misc. Long-Term Liabilities	6,585,931.00	69,103,897.15
Accum Provision for Post-Retirement Benefits	90,774,087.00	58,463,472.74
Total	681,450,093.67	729,353,371.53
Total Liabilities and Other Credits	3,027,804,807.04	2,890,649,408.97

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
OCTOBER 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(8,948,177.00)		
Retained Earnings			672,960,370.81		
Total Common Equity			1,128,346,729.26	51.82	54.63
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.38	27.80
LT Notes Payable to Associated Companies			363,000,000.00	16.67	17.57
Total Capitalization			2,065,650,729.26	94.87	100.00
ST Notes Payable to Associated Companies			111,608,000.00	5.13	
Total Capitalization and Short-Term Debt			2,177,258,729.26	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,271,033,669 56	4,271,033,669 56
Reserves for Depreciation and Amortization		(1,854,675,192 61)
Electric	(1,561,882,619 70)	
Gas	(205,535.748 86)	
Common	(66,651,627 52)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(20,604.296 53)	
INVESTMENTS - AT COST		19,532,600 66
Nonutility Property	75.239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	18,926,435 46	
CASH		2.622,328 85
JP Morgan Chase	11,643 75	
BB&T	11,682 90	
Bank of America	29,367 89	
Town and Country Bank	22,617 97	
US Bank	2,459,857 49	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		1,219,155 66
MAN Margin Call	1,219,155 66	
TEMPORARY CASH INVESTMENTS		35,642 67
Other	35,642 67	
ACCOUNTS RECEIVABLE - LESS RESERVE		121,960,497 24
Working Funds	21,280 00	
Customers-Active	64,934,202 28	
Wholesale Sales	6,671,092 35	
Transmission Sales	184,545 93	
Unbilled Revenues	37,402,000 00	
Employee Computer Loans	94,419 70	
Damage Claims	839,679 53	
Tax Refunds	3,095,494 57	
IMEA	3,574,163 75	
IMPA	3,755,604 60	
Other	2,863,372 09	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(767,962 00)	
Accrual	(1,837,671 67)	
Charged Off	3,856,901 24	
Recoveries	(2,019,229 57)	
A/R Miscellaneous	(1,116,766 00)	
Interest and Dividends Receivable	686 24	
Rents Receivable	408,684 20	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		74,186 13
E ON US Services/Kentucky Utilities	74,186 13	
FUEL		44,038,169 12
Coal 1,211,450 90 Tons @ $35 32; MMBTU 27,940,247 65 @ 153 13¢	42,784,309 87	
Fuel Oil 164,959 Gallons @ 177 66¢	293,062 75	
Gas Pipeline 129,060 00 MCF @ $7 44	960,796 50	
PLANT MATERIALS AND OPERATING SUPPLIES		26,234,921 95
Regular Materials and Supplies	25,994,680 89	
Limestone 36,053 91 Tons @ $6 66	240,241 06	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,570,683 69
Stores Expense Undistributed	4,570,683 69	
GAS STORED UNDERGROUND - CURRENT		102,511.420 41
Gas St Underground*14,249.946 MCF (14 73 psia) @ $7 19	102.511,420 41	
ALLOWANCE INVENTORY		12,078 67
Allowance Inventory	12,078 67	
PREPAYMENTS		3.516,638 13
Insurance	287,504 01	
Franchises	0 01	
Taxes	1,292,925.23	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	20,015 90	
Other	1,546,192 95	
MISCELLANEOUS CURRENT ASSETS		180,802 72
Miscellaneous Current Assets	3,834 01	
Derivative Asset - Non-Hedging	176,968 71	
UNAMORTIZED DEBT EXPENSE		9,832.489 44
Pollution Control Series Y due May 1, 2027	465,994 49	
Pollution Control Series Z due Aug 1, 2030	870,810 99	
Pollution Control Series AA due Sept 1, 2027	393.474 00	
Pollution Control Series BB due Sept. 1, 2026	185,928 36	
Pollution Control Series CC due Sept 1, 2026	202,239 23	
Pollution Control Series DD due Nov 1, 2027	218,931 02	
Pollution Control Series EE due Nov. 1, 2027	218,964 67	
Pollution Control Series FF due Oct 1, 2032	917,818 48	
Pollution Control Series GG due Oct 1, 2033	3,044,529 07	
Pollution Control Series HH due Feb. 1, 2035	998,102 40	
Pollution Control Bonds due Jun 1, 2033	591,997 89	
Pollution Control Bonds due Jun 1, 2033	554,204 10	
Pollution Control Bonds due Jun 1, 2033	1,169,494 74	
UNAMORTIZED LOSS ON BONDS		19,273.633 37
Refinanced and Called Bonds	19,273,633 37	
OTHER DEFERRED DEBITS	36,974,477 68	36,974,477.68
DEFERRED REGULATORY ASSET		166.543,940 10
Asset Retirement Obligations		
Electric	18,704,976 09	
Gas	5,126,478 84	
Common	22,891 31	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	3,262,106 46	
MISO Exit Fee	13,139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		52.312,663 60
Federal		
Electric	37,236,214 02	
Gas	7,101,619 16	
State		
Electric	6,943,848 81	
Gas	1,030,981 61	

* Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845 00	10,810,000

Total Assets and Other Debits	3,027,804,807.04	3,027,804,807.04

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,128,346,729.26
Common Stock	425,170,424.09	
Retained Earnings	672,960,370.81	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(8,948,177.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000.00	363,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		111,608,000.00
Money Pool Payable	111,608,000.00	
ACCOUNTS PAYABLE		79,555,449.70
Regular	76,832,735.98	
Salaries and Wages Accrued	1,946,011.21	
Tax Collections - Payable	776,702.51	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		29,788,134.00
E.ON US Services/Kentucky Utilities	29,788,134.00	
CUSTOMERS' DEPOSITS	19,203,998.92	19,203,998.92
Customers' Deposits		
TAXES ACCRUED	22,926,189.00	22,926,189.00
Taxes Accrued		
INTEREST ACCRUED		5,374,203.96
Loan Agreement - Pol. Cont. Bonds 2000 Series A	72,916.67	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	137,155.54	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	2,104.99	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	128,071.25	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	156,531.51	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	200,832.86	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	199,222.20	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	68,490.40	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	390,791.11	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	11,333.35	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	18,083.36	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	20,533.37	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	1,180,666.65	
Interest Rate Swaps	137,296.03	
Fidelia	1,863,294.98	
Customers' Deposits	786,879.69	
ST OBLIGATIONS UNDER CAPITAL LEASES	434,802.13	434,802.13
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,813,206.40
Customer Overpayments	3,661,870.48	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,642,413.83	
Derivative Liabilities - Non-Hedging	652,819.84	
Postretirement Benefits - Current	2,248,334.00	
Other	357,768.25	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	70,949.00	70,949.00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		18,161,712.86
Line Extensions		
Electric	799,072.49	
Gas	8,071,146.60	
Customer Advances - Arena	9,291,493.77	
ASSET RETIREMENT OBLIGATIONS		29,323,324.44
Electric	21,593,764.86	
Gas	7,704,092.67	
Common	25,466.91	
OTHER DEFERRED CREDITS	42,631,589.89	42,631,589.89
REGULATORY LIABILITIES		54,147,927.16
Asset Retirement Obligations		
Electric	221,229.89	
Gas	101,016.52	
Deferred Taxes		
Federal		
Electric	26,695,003.75	
Gas	1,705,343.50	
State		
Electric	18,829,272.00	
Gas	2,697,123.50	
MISO Schedule 10 Charges	3,898,938.00	
INVESTMENT TAX CREDIT		46,551,177.29
Job Development Credit		
Electric	33,597,000.30	
Gas	1,174,550.99	
Advanced Coal Credit	11,779,626.00	
ACCUMULATED DEFERRED INCOME TAXES		393,203,395.03
Federal		
Electric	292,562,346.01	
Gas	43,927,433.65	
Common	(54,580.00)	
State		
Electric	49,863,054.87	
Gas	6,906,557.50	
Common	(1,417.00)	
Netting Out Deferred Tax Liabilities		
MISCELLANEOUS LONG-TERM LIABILITIES		6,585,931.00
Workers' Compensation	6,030,948.00	
Uncertain Tax Positions	554,983.00	
ACCUMULATED PROVISION FOR BENEFITS		90,774,087.00
Pension Payable	(3,967,637.00)	
Postretirement Benefits - FAS 106	91,121,681.00	
Post Employment Benefits Payable	3,620,043.00	
Total Liabilities and Other Credits	3,027,804,807.04	3,027,804,807.04

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
OCTOBER 31, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	103,326,349.83	95,064,808.12
Items not requiring (providing) cash currently:		
Depreciation	99,433,672.94	97,856,849.82
Amortization	5,227,638.69	4,905,362.53
Deferred income taxes - net	8,292,237.36	(7,529,474.05)
Investment tax credit - net	5,480,940.15	(3,362,763.17)
Other	(3,935,841.12)	(2,954,380.16)
Change in receivables	62,526,818.17	116,150,350.89
Change in inventory	(26,959,336.24)	20,622,411.34
Change in allowance inventory	3,324.33	5,008.24
Change in payables and accrued expenses	(98,685,080.52)	(91,076,831.50)
Change in other regulatory assets	(2,924,236.56)	(8,637,096.13)
Change in other regulatory liabilities	(1,222,643.70)	6,141,173.30
Change in other deferred debits	(1,846,272.49)	4,479,833.37
Change in other deferred credits	(8,646,445.40)	35,040,376.66
Other	(434,310.56)	(4,690,328.56)
Net cash provided (used) by operating activities	139,636,814.88	262,015,300.70
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(160,577,613.77)	(111,543,442.52)
Change in long-term investments	5,458.27	(1,223,934.98)
Change in restricted cash	(4,539,743.21)	622,811.19
Net cash provided (used) by investing activities	(165,111,898.71)	(112,144,566.31)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	261,454,141.72	(1,965.17)
Net increase in short-term debt	43,784,000.00	
Net increase in short-term capital lease obligations	434,802.13	
Net increase in long-term capital lease obligations	70,949.00	
Payments for retirement of long-term debt	(126,000,000.00)	
Payments for retirement of preferred stock	(91,643,112.60)	(1,250,000.00)
Net decrease in short-term debt		(51,998,000.00)
Dividends on preferred stock	(4,416,711.93)	(3,617,864.64)
Dividends on common stock	(65,000,000.00)	(95,000,000.00)
Net cash provided (used) by financing activities	18,684,068.32	(151,867,829.81)
'ET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,791,015.51)	(1,997,095.42)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,657,971.52	5,101,587.06

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
OCTOBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	95,777.26	350,482.41	904,037.52	539,942.69	1,062,104.91
1992 Series A Variable TC	-	182,490.40	670,142.71	1,724,646.51	1,030,339.98	2,022,476.68
1993 Series A Variable Rate	-	107,027.27	392,885.10	1,016,055.25	604,548.00	1,189,075.32
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	81,041.67	75,798.61	781,805.56	719,875.05	932,881.96	839,583.37
2000 Series A Variable TC	362,755.25	311,392.58	2,804,519.37	2,483,734.65	3,316,913.88	2,893,740.52
2001 Series A Variable Rate	34,016.81	31,022.09	333,286.10	294,545.63	395,855.10	344,532.39
2001 Series A Variable Rate	70,896.58	68,412.33	691,754.84	650,681.51	825,873.34	760,447.28
2001 Series A Variable Rate TC	86,651.37	83,615.08	845,478.09	795,277.40	1,009,400.69	930,004.82
2001 Series B Variable Rate	111,175.35	107,013.69	1,079,227.44	1,025,185.63	1,289,802.78	1,200,236.99
2001 Series B Variable Rate TC	110,283.56	107,013.69	1,077,616.76	1,024,867.14	1,288,192.10	1,198,724.65
2002 Series A Variable Rate TC	145,199.68	127,392.15	1,325,740.37	1,199,763.62	1,574,611.69	1,407,266.73
2003 Series A Variable Rate	417,450.67	386,666.67	3,951,555.59	3,626,435.56	4,709,884.48	4,230,488.90
2005 Series A Variable Rate	123,755.56	118,555.55	1,220,505.55	1,113,372.20	1,458,994.41	1,307,483.29
2007 Series A Variable Rate	96,444.44	-	591,128.69	-	591,128.69	-
2007 Series B Variable Rate	108,826.68	-	675,145.80	-	675,145.80	-
2007 Series A Variable Rate (4.6%)	237,666.68	-	1,449,000.04	-	1,449,000.04	-
Interest Rate Swaps	137,296.04	122,186.94	1,248,492.28	1,683,875.81	1,504,381.84	2,191,733.50
Notes/Debentures	32,272.00	-	3,349,515.17	-	3,349,515.17	-
Fidelia	1,596,741.66	911,875.01	13,638,870.01	9,118,750.10	15,462,620.03	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.67	345,972.25	1,015,885.44	541,805.57	1,223,958.34
Total	3,752,474.00	2,934,155.99	36,823,124.13	28,396,989.02	42,550,838.24	33,744,357.81
Amortization of Debt Expense - Net						
Amortization of Debt Expense	33,752.38	34,054.02	333,129.16	340,540.20	401,237.20	408,639.52
Amort. of Loss on Reacquired Debt	86,701.35	85,136.01	862,003.25	851,360.10	1,032,275.27	1,021,648.15
Total	120,453.73	119,190.03	1,195,132.41	1,191,900.30	1,433,512.47	1,430,287.67
Other Interest Charges						
Customers' Deposits	84,111.53	80,157.80	801,271.93	748,535.14	955,216.98	889,725.08
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	2,344,010.99	(1,058,734.31)	2,344,010.99
Other Tax Deficiencies	38.59	-	1,961.30	213.87	1,961.30	769,385.87
Gas Refunds	-	475.76	2,447.64	1,427.28	3,399.16	1,427.28
Interest on Debt to Associated Companies	404,253.95	252,604.34	3,215,313.47	1,255,109.02	3,822,862.12	2,138,943.70
Other	-	-	8,581.56	-	8,581.56	-
Total	488,404.07	333,237.90	2,970,841.59	4,349,296.30	3,733,286.81	6,143,492.92
Total Interest	4,361,331.80	3,386,583.92	40,989,098.13	33,938,185.62	47,717,637.52	41,318,138.40

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
OCTOBER 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,433,534.59	1,138,722.00	12,241,536.87	11,453,357.17
Unemployment	4,978.20	18,803.10	111,188.14	145,882.78
Federal Old Age and Survivors Insurance	525,862.14	478,000.00	5,109,980.11	4,858,330.96
Public Service Commission Fee	161,615.66	158,705.95	1,598,698.36	1,463,523.30
Federal Income	2,738,951.81	3,733,355.66	35,963,840.31	48,908,161.33
State Income	521,705.10	829,634.58	8,032,142.82	9,395,299.82
Miscellaneous	6,099.65	5,969.65	19,880.07	(129,932.36)
Total Charged to Operating Expense	5,392,747.15	6,363,190.94	63,077,266.68	76,094,623.00
Taxes Charged to Other Accounts	307,498.73	(248,129.85)	1,216,965.12	1,098,367.41
Taxes Accrued on Intercompany Accounts	(185,771.90)	(176,317.90)	(1,982,637.94)	(1,874,821.20)
Total Taxes Charged	5,514,473.98	5,938,743.19	62,311,593.86	75,318,169.21

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	12,335,531.00	17,615,499.76	8,646,000.48
State Unemployment	18,782.64	19,592.25	38,202.00	172.89
Federal Unemployment	29,205.50	25,207.15	54,197.74	214.91
Federal Old Age and Survivors	561,717.23	4,407,137.59	4,538,817.35	430,037.47
Federal Income	6,350,985.46	34,750,892.40	34,438,492.20	6,663,385.66
State Income	7,726,946.43	7,733,727.55	8,681,834.00	6,778,839.98
Kentucky Sales and Use Tax	10,878.70	2,967,793.23	2,571,134.32	407,537.61
Miscellaneous	0.37	71,712.69	71,713.06	(0.00)
Totals	28,624,485.57	62,311,593.86	68,009,890.43	22,926,189.00

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
OCTOBER 31, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	13,835,543.46	(2,961,109.88)	(863.74)	10,873,569.84	1,956,131,495.17
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	290,574.32	(158,697.00)	-	131,877.32	225,568,660.31
Transmission	240,067,695.28	15,259,165.62	(751,561.48)	(3,177.21)	14,504,426.93	254,572,122.21
Distribution	754,284,748.12	11,857,074.36	(4,424,250.91)	(60,096.92)	7,372,726.53	761,657,474.65
General	16,886,738.80	81,698.49	(275,858.33)	(36,652.65)	(230,812.49)	16,655,926.31
Total Electric	3,199,821,117.16	41,390,325.44	(8,571,477.60)	(100,797.02)	32,718,050.82	3,232,539,167.98
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	278,090.01	(69,306.58)	-	208,783.43	61,257,073.20
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	22,215,712.13	(69,897.14)	(2,319.15)	22,143,495.84	462,264,285.22
General	10,346,233.87	298,651.00	(1,571,058.35)	(33,407.63)	(1,305,814.98)	9,040,418.89
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	22,800,269.88	(1,710,262.07)	(35,726.78)	21,054,281.03	547,604,862.89
Common						
Intangible	28,877,505.07	3,280,114.77	-	-	3,280,114.77	32,157,619.84
General	150,813,423.54	5,151,797.91	(1,649,456.24)	-	3,502,341.67	154,315,765.21
Total Common	179,690,928.61	8,431,912.68	(1,649,456.24)	-	6,782,456.44	186,473,385.05
Total Plant in Service	3,906,062,627.63	72,622,508.00	(11,931,195.91)	(136,523.80)	60,554,788.29	3,966,617,415.92
Construction Work In Progress						
Electric	154,377,558.86	76,636,421.99	-	-	76,636,421.99	231,013,980.85
Gas	54,810,960.24	1,266,071.11	-	-	1,266,071.11	56,077,031.35
Common	8,684,890.86	8,640,350.58	-	-	8,640,350.58	17,325,241.44
Total Construction Work In Progress	217,873,409.96	86,542,843.68	-	-	86,542,843.68	304,416,253.64
Total Utility Plant at Original Cost	4,123,936,037.59	159,165,351.68	(11,931,195.91)	(136,523.80)	147,097,631.97	4,271,033,669.56

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
OCTOBER 31, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(70,167,681.29)	8,571,477.60	-	-	-	-	(5,897,638.76)	(1,367,053,124.24)
Electric - ARO Steam	(2,049,614.55)	(131,177.05)	-	-	-	-	-	-	(2,180,791.60)
Electric - ARO Hydro	(15,828.80)	(906.84)	-	-	-	-	-	-	(16,735.64)
Electric - ARO Other Production	(108,105.20)	(6,168.96)	-	-	-	-	-	-	(114,274.16)
Electric - ARO Transmission	(2,165.47)	(141.97)	-	-	-	-	-	-	(2,307.44)
Electric - ARO Distribution	(12,001.89)	(304.70)	-	-	-	-	-	-	(12,306.59)
Gas	(148,577,916.87)	(8,969,607.33)	1,710,262.07	-	-	-	-	-	(155,837,262.13)
Gas - ARO Underground Storage	(392,040.25)	(7,569.40)	-	-	-	-	-	-	(399,609.65)
Gas - ARO Distribution	(19,101.73)	(58.80)	-	-	-	-	-	-	(19,160.53)
Common - ARO	(1,130.96)	(28.60)	-	-	-	-	-	-	(1,159.56)
Common	(62,084,425.21)	(6,191,913.22)	1,649,456.24	-	-	-	-	-	(66,626,882.19)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(85,475,558.16)	11,931,195.91	-	-	-	-	(5,897,638.76)	(1,592,263,613.73)
Salvage Reserves									
Steam Production	(46,966,253.01)	(4,797,504.48)	-	-	-	834,038.23	(269,883.65)	-	(51,199,602.91)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	2,644.83	-	-	(2,090,919.89)
Transmission	(16,367,877.32)	(911,723.83)	-	-	-	475,191.74	-	-	(16,804,409.41)
Distribution	(132,166,536.49)	(5,054,057.86)	-	-	-	2,081,995.71	(57,880.40)	-	(135,196,479.04)
Distribution General	89,695.45	18,907.94	-	-	-	487.32	-	-	109,090.71
Gas Stored Underground	249,305.84	(188,462.09)	-	-	-	21,517.01	-	-	82,360.76
Gas Transmission	(2,644,672.08)	(86,631.17)	-	-	-	-	-	-	(2,731,303.25)
Gas Distribution	(47,306,815.37)	(3,565,608.93)	-	-	-	117,959.44	(4,646.44)	-	(50,759,111.30)
Gas General	148,519.46	35,083.57	-	-	-	-	-	-	183,603.03
Common	(354,458.62)	(49,312.66)	-	-	-	209,955.86	-	-	(193,815.42)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(14,599,309.51)	-	-	-	3,743,790.14	(332,410.49)	-	(259,123,299.86)
Total Reserves									
Electric	(1,499,774,246.93)	(81,050,759.04)	8,571,477.60	-	-	3,394,357.83	(327,764.05)	(5,897,638.76)	(1,575,084,573.35)
Gas	(198,542,721.00)	(12,782,854.15)	1,710,262.07	-	-	139,476.45	(4,646.44)	-	(209,480,483.07)
Common	(62,440,014.79)	(6,241,254.48)	1,649,456.24	-	-	209,955.86	-	-	(66,821,857.17)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(100,074,867.67)	11,931,195.91	-	-	3,743,790.14	(332,410.49)	(5,897,638.76)	(1,851,386,913.59)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(1,107,834.65)	(4,155.08)	497.82	37,152.02	1,499,550.31
Gas	(465,950.02)	-	-	620,863.56	(46,692.05)	17,914.15	-	-	126,135.64
Common	(502,243.45)	-	-	567,920.37	(20,862.21)	(64,549.29)	-	-	(19,734.58)
Total 108001 RWIP	2,800,302.69	-	-	(5,822.03)	(1,175,388.91)	(50,790.22)	497.82	37,152.02	1,605,951.37
108901									
Electric	8,273,600.70	-	-	6,244,184.17	3,938,125.03	(4,064,186.63)	(563,962.03)	(2,125,357.90)	11,702,403.34
Gas	3,107,219.25	-	-	198,479.08	(84,583.36)	597,483.60	-	-	3,818,598 57
Common	(4,637,184.09)	-	-	(5,698,720.60)	(191,893.65)	10,714,962.57	2,800.00	-	189,964.23
Total 108901 RWIP	6,743,635.86	-	-	743,942.65	3,661,648.02	7,248,259.54	(561,162.03)	(2,125,357.90)	15,710,966.14
Total RWIP	9,543,938.55	-	-	738,120.62	2,486,259.11	7,197,469.32	(560,664.21)	(2,088,205.88)	17,316,917.51
YTD Activity	(1,751,213,044.17)	(100,074,867.67)	11,931,195.91	738,120.62	2,486,259.11	10,941,259.46	(893,074.70)	(7,985,844.64)	(1,834,069,996.08)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(5,227,638.69)	-	-	-	-	-	-	(20,604,296.53)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(5,227,638.69)	-	-	-	-	-	-	(20,605,196.53)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(105,302,506.36)	11,931,195.91	738,120.62	2,486,259.11	10,941,259.46	(893,074.70)	(7,985,844.64)	(1,854,675,192.61)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,416,358,476.95

LG&E Monthly Report to KPSC – September 30, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

September 30, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	77,167,206.33	72,497,984.06	4,669,222.27	6.44
Gas Operating Revenues	13,487,053.89	11,978,714.60	1,508,339.29	12.59
Total Operating Revenues	90,654,260.22	84,476,698.66	6,177,561.56	7.31
Fuel for Electric Generation	25,026,337.58	21,378,289.38	3,648,048.20	17.06
Power Purchased	5,147,757.48	8,536,368.61	(3,388,611.13)	(39.70)
Gas Supply Expenses	8,226,544.79	6,312,027.45	1,914,517.34	30.33
Other Operation Expenses	14,395,545.68	16,744,135.93	(2,348,590.25)	(14.03)
Maintenance	7,883,959.64	7,707,433.64	176,526.00	2.29
Depreciation	9,815,061.57	9,783,130.68	31,930.89	0.33
Amortization Expense	477,623.70	541,075.87	(63,452.17)	(11.73)
Regulatory Credits	(163,026.95)	(152,401.35)	(10,625.60)	6.97
Taxes				
Federal Income	19,772,056.65	10,901,887.00	8,870,169.65	81.36
State Income	4,535,717.00	1,969,655.40	2,566,061.60	130.28
Deferred Federal Income - Net	(2,869,812.68)	7,970,145.07	(10,839,957.75)	(136.01)
Deferred State Income - Net	(396,382.86)	1,821,275.95	(2,217,658.81)	(121.76)
Federal Income - Estimated	(17,421,912.84)	(17,347,365.21)	(74,547.63)	0.43
State Income - Estimated	(3,318,459.58)	(3,854,970.06)	536,510.48	(13.92)
Property and Other	967,945.55	1,784,851.04	(816,905.49)	(45.77)
Investment Tax Credit	2,600,000.00	-	2,600,000.00	100.00
Amortization of Investment Tax Credit	(322,929.13)	(323,759.38)	830.25	(0.26)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.90	10,570.23	7.67
Total Operating Expenses	74,504,366.73	73,909,550.92	594,815.81	0.80
Net Operating Income	16,149,893.49	10,567,147.74	5,582,745.75	52.83
Other Income Less Deductions	(549,532.70)	1,534,405.90	(2,083,938.60)	(135.81)
Income Before Interest Charges	15,600,360.79	12,101,553.64	3,498,807.15	28.91
Interest on Long Term Debt	3,581,151.16	2,840,837.03	740,314.13	26.06
Amortization of Debt Expense - Net	120,439.96	119,190.03	1,249.93	1.05
Other Interest Expenses	526,525.30	1,517,106.48	(990,581.18)	(65.29)
Total Interest Charges	4,228,116.42	4,477,133.54	(249,017.12)	(5.56)
Net Inc Before Cumulative Effect of Acctg Chg	11,372,244.37	7,624,420.10	3,747,824.27	49.16
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	11,372,244.37	7,624,420.10	3,747,824.27	49.16
Preferred Dividend Requirements	-	330,863.23	(330,863.23)	(100.00)
Earnings Available for Common	11,372,244.37	7,293,556.87	4,078,687.50	55.92

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	718,004,991.32	704,261,044.69	13,743,946.63	1.95
Gas Operating Revenues	239,605,678.05	288,025,319.28	(48,419,641.23)	(16.81)
Total Operating Revenues	957,610,669.37	992,286,363.97	(34,675,694.60)	(3.49)
Fuel for Electric Generation	244,451,437.15	219,713,517.92	24,737,919.23	11.26
Power Purchased	59,448,945.30	80,709,343.85	(21,260,398.55)	(26.34)
Gas Supply Expenses	171,155,386.10	218,713,631.73	(47,558,245.63)	(21.74)
Other Operation Expenses	128,481,639.86	140,685,351.95	(12,203,712.09)	(8.67)
Maintenance	56,967,334.07	58,221,515.80	(1,254,181.73)	(2.15)
Depreciation	88,845,503.22	87,899,758.86	945,744.36	1.08
Amortization Expense	4,755,128.80	4,380,864.19	374,264.61	8.54
Regulatory Credits	(1,451,663.19)	(1,370,788.24)	(80,874.95)	5.90
Taxes				
Federal Income	33,224,888.50	45,174,805.67	(11,949,917.17)	(26.45)
State Income	7,510,437.72	8,565,665.24	(1,055,227.52)	(12.32)
Deferred Federal Income - Net	2,628,383.92	(2,315,455.67)	4,943,839.59	(213.51)
Deferred State Income - Net	707,739.94	(453,006.38)	1,160,746.32	(256.23)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	16,949,193.31	15,990,961.15	958,232.16	5.99
Investment Tax Credit	8,779,626.00	-	8,779,626.00	100.00
Amortization of Investment Tax Credit	(2,969,487.85)	(3,027,624.17)	58,136.32	(1.92)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,335,893.97	1,239,114.14	96,779.83	7.81
Total Operating Expenses	820,267,294.13	873,123,049.97	(52,855,755.84)	(6.05)
Net Operating Income	137,343,375.24	119,163,314.00	18,180,061.24	15.26
Other Income Less Deductions	(176,942.13)	1,703,656.92	(1,880,599.05)	(110.39)
Income Before Interest Charges	137,166,433.11	120,866,970.92	16,299,462.19	13.49
Interest on Long Term Debt	33,070,650.13	25,462,833.03	7,607,817.10	29.88
Amortization of Debt Expense - Net	1,074,678.68	1,072,710.27	1,968.41	0.18
Other Interest Expenses	2,482,437.52	4,016,058.40	(1,533,620.88)	(38.19)
Total Interest Charges	36,627,766.33	30,551,601.70	6,076,164.63	19.89
Net Inc Before Cumulative Effect of Acctg Chg	100,538,666.78	90,315,369.22	10,223,297.56	11.32
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	100,538,666.78	90,315,369.22	10,223,297.56	11.32
Preferred Dividend Requirements	941,636.24	2,799,023.52	(1,857,387.28)	(66.36)
Earnings Available for Common	99,597,030.54	87,516,345.70	12,080,684.84	13.80

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	956,404,475.19	950,504,102.33	5,900,372.86	0.62
Gas Operating Revenues	346,809,937.43	465,119,351.96	(118,309,414.53)	(25.44)
Total Operating Revenues	1,303,214,412.62	1,415,623,454.29	(112,409,041.67)	(7.94)
Fuel for Electric Generation	317,308,763.46	293,830,275.40	23,478,488.06	7.99
Power Purchased	92,573,226.06	119,981,864.58	(27,408,638.52)	(22.84)
Gas Supply Expenses	247,725,216.13	366,594,952.70	(118,869,736.57)	(32.43)
Other Operation Expenses	177,637,752.26	202,147,367.59	(24,509,615.33)	(12.12)
Maintenance	77,781,472.02	72,505,921.79	5,275,550.23	7.28
Depreciation	118,928,014.62	117,616,120.53	1,311,894.09	1.12
Amortization Expense	6,241,620.13	5,800,192.52	441,427.61	7.61
Regulatory Credits	(2,341,811.46)	(13,855,521.51)	11,513,710.05	(83.10)
Taxes				
Federal Income	50,704,876.39	68,949,247.27	(18,244,370.88)	(26.46)
State Income	10,306,157.68	12,398,071.00	(2,091,913.32)	(16.87)
Deferred Federal Income - Net	(2,080,921.61)	(8,103,918.27)	6,022,996.66	(74.32)
Deferred State Income - Net	(52,377.18)	(1,448,659.26)	1,396,282.08	(96.38)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	22,666,923.46	21,356,205.57	1,310,717.89	6.14
Investment Tax Credit	11,779,626.00	-	11,779,626.00	100.00
Amortization of Investment Tax Credit	(3,963,525.12)	(4,044,417.53)	80,892.41	(2.00)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,154,821.42	1,414,353.14	740,468.28	52.35
Total Operating Expenses	1,126,816,741.57	1,254,137,449.45	(127,320,707.88)	(10.15)
Net Operating Income	176,397,671.05	161,486,004.84	14,911,666.21	9.23
Other Income Less Deductions	(2,602,887.85)	2,327,238.60	(4,930,126.45)	(211.84)
Income Before Interest Charges	173,794,783.20	163,813,243.44	9,981,539.76	6.09
Interest on Long Term Debt	41,732,520.23	33,482,560.65	8,249,959.58	24.64
Amortization of Debt Expense - Net	1,432,248.77	1,430,290.32	1,958.45	0.14
Other Interest Expenses	3,578,120.64	6,047,172.14	(2,469,051.50)	(40.83)
Total Interest Charges	46,742,889.64	40,960,023.11	5,782,866.53	14.12
Net Inc Before Cumulative Effect of Acctg Chg	127,051,893.56	122,853,220.33	4,198,673.23	3.42
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	127,051,893.56	115,431,648.83	11,620,244.73	10.07
Preferred Dividend Requirements	1,847,977.39	3,617,866.24	(1,769,888.85)	(48.92)
Earnings Available for Common	125,203,916.17	111,813,782.59	13,390,133.58	11.98

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
SEPTEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	658,800,443.39	641,204,287.27	639,104,729.77	620,981,498.44	613,497,844.14	596,684,061.55
Add:						
Credits from Income	11,372,244.37	7,624,420.10	100,538,666.78	90,315,369.22	127,051,893.56	115,431,648.83
FIN 48 Adjustment	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			316,636.25	806,523.51	585,477.39	1,075,366.24
Without Par Value						
Auction Rate			624,999.99	1,992,500.01	1,262,500.00	2,542,500.00
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,613.23				
Without Par Value						
Auction Rate	-	241,250.00				
Common Dividends						
Common Stock Without Par Value	-	35,000,000.00	65,000,000.00	95,000,000.00	65,000,000.00	95,000,000.00
Balance at End of Period	670,172,687.76	613,497,844.14	670,172,687.76	613,497,844.14	670,172,687.76	613,497,844.14

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF SEPTEMBER 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,248,602,193.18	4,107,585,609.26
Less Reserves for Depreciation & Amortization	1,845,247,566.01	1,770,859,369.49
Total	2,403,354,627.17	2,336,726,239.77
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	37,713.74
Special Funds	19,100,631.65	178,406.90
Other	-	-
Total	19,706,796.85	810,406.64
Current and Accrued Assets		
Cash	2,807,764.28	5,124,586.71
Special Deposits	1,195,192.73	9,152,346.00
Temporary Cash Investments	35,497.16	5,389.56
Accounts Receivable-Less Reserve	144,206,823.44	110,877,208.31
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	10,433,244.05	25,750,897.14
Materials & Supplies-At Average Cost		
Fuel	41,768,266.10	43,152,905.81
Plant Materials & Operating Supplies	26,061,095.81	24,922,766.39
Stores Expense	4,385,536.61	4,365,047.32
Gas Stored Underground	83,681,538.64	86,752,841.66
Allowance Inventory	12,373.69	16,979.26
Prepayments	3,628,793.25	2,948,837.97
Miscellaneous Current & Accrued Assets	532,652.93	4,911,485.51
Total	318,748,778.69	317,981,291.64
Deferred Debits and Other		
Unamortized Debt Expense	9,861,969.99	8,234,206.84
Unamortized Loss on Bonds	19,360,334.68	19,878,681.03
Accumulated Deferred Income Taxes	51,818,618.60	86,131,928.53
Deferred Regulatory Assets	166,250,119.76	36,039,665.47
Other Deferred Debits	40,493,172.85	67,203,647.39
Total	287,784,215.88	217,488,129.26
Total Assets and Other Debits	3,029,594,418.59	2,873,006,067.31

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(8,172,182.00)	(56,282,796.19)
Retained Earnings	670,172,687.76	613,497,844.14
Total Common Equity	1,126,335,041.21	1,021,549,583.40
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,063,639,041.21	1,910,028,177.45
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	105,533,000.00	-
Notes Payable to Associated Companies	-	52,337,000.00
Notes Payable	-	-
Accounts Payable	89,265,726.81	86,259,233.29
Accounts Payable to Associated Companies	29,601,712.83	43,404,061.26
Customer Deposits	19,059,437.62	17,941,395.48
Taxes Accrued	22,994,312.06	19,150,297.35
Interest Accrued	9,626,278.84	6,172,522.87
Dividends Declared	-	992,589.69
ST Obligations Under Capital Leases	464,166.57	-
Misc. Current & Accrued Liabilities	10,167,934.07	7,643,736.07
Total	286,712,568.80	235,150,836.01
Deferred Credits and Other		
LT Obligations Under Capital Leases	118,249.00	-
Accumulated Deferred Income Taxes	393,203,395.03	400,791,477.20
Investment Tax Credit	46,880,375.29	39,064,274.41
Regulatory Liabilities	53,862,719.43	47,749,383.67
Customer Advances for Construction	16,627,256.05	9,882,979.79
Asset Retirement Obligations	29,198,729.53	27,638,632.69
Other Deferred Credits	41,951,720.60	74,611,620.19
Misc. Long-Term Liabilities	6,607,120.00	69,103,897.15
Accum Provision for Post-Retirement Benefits	90,793,243.65	58,984,788.75
Total	679,242,808.58	727,827,053.85
Total Liabilities and Other Credits	3,029,594,418.59	2,873,006,067.31

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
SEPTEMBER 30, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(8,172,182.00)		
Retained Earnings			670,172,687.76		
Total Common Equity			1,126,335,041.21	51.92	54.58
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.48	27.83
LT Notes Payable to Associated Companies			363,000,000.00	16.73	17.59
Total Capitalization			2,063,639,041.21	95.13	100.00
ST Notes Payable to Associated Companies			105,533,000.00	4.87	
Total Capitalization and Short-Term Debt			2,169,172,041.21	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,248.602.193 18	4,248.602,193 18
Reserves for Depreciation and Amortization		(1,845.247,566 01)
Electric	(1.554,997.776 81)	
Gas	(204.035,049 89)	
Common	(66,082.052 67)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(20,131.786.64)	
INVESTMENTS - AT COST		19,706,796 85
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63.360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	19,100.631 65	
CASH		2,807.764 28
JP Morgan Chase	12,757 82	
BB&T	11,686 97	
Bank of America	65.064 23	
Town and Country Bank	22,617 97	
US Bank	2,608,478 44	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10.000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		1,195,192 73
MAN Margin Call	1,195,192 73	
TEMPORARY CASH INVESTMENTS		35.497 16
Other	35,497 16	
ACCOUNTS RECEIVABLE - LESS RESERVE		144,206,823 44
Working Funds	21,280 00	
Customers-Active	90,099.826 77	
Wholesale Sales	3,288,827 09	
Transmission Sales	338.111 65	
Unbilled Revenues	37,091,000 00	
Employee Computer Loans	100.294 49	
Damage Claims	782,331 82	
Officers and Employees	600 00	
Tax Refunds	3,095,494 57	
IMEA	3.346,031 98	
IMPA	3,505,626 58	
Other	4.076,149 25	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(860.831 00)	
Accrual	(1,601,878 75)	
Charged Off	3,418.751 02	
Recoveries	(1,816,872 27)	
A/R Miscellaneous	(1,116.766 00)	
Interest and Dividends Receivable	28,932 18	
Rents Receivable	409.914 06	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		10,433,244 05
E ON US Services/Kentucky Utilities	10,433,244 05	
FUEL		41,768,266 10
Coal 1,169,128 10 Tons @ $34 72; MMBTU 27,047,085 94 @ 150 07¢	40,588,482 53	
Fuel Oil 198,332 Gallons @ 182 20¢	361,367 28	
Gas Pipeline 127,044 00 MCF @ $6 44	818.416.29	
PLANT MATERIALS AND OPERATING SUPPLIES		26.061.095.81
Regular Materials and Supplies	25.837,305 77	
Limestone 35,925 91 Tons @ $6 23	223,790 04	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,385,536 61
Stores Expense Undistributed	4.385.536 61	
GAS STORED UNDERGROUND - CURRENT		83,681,538 64
Gas St Underground*11,737.911 MCF (14 73 psia) @ $7 13	83.681.538 64	
ALLOWANCE INVENTORY		12,373 69
Allowance Inventory	12,373 69	
PREPAYMENTS		3.628,793 25
Insurance	488.557 99	
Franchises	20,735 84	
Taxes	1,454,540 89	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	24,019 08	
Other	1,270,939 42	
MISCELLANEOUS CURRENT ASSETS		532,652 93
Miscellaneous Current Assets	3.834 01	
Derivative Asset - Non-Hedging	528,818 92	
UNAMORTIZED DEBT EXPENSE		9.861.969 99
Pollution Control Series Y due May 1, 2027	467,986.49	
Pollution Control Series Z due Aug. 1, 2030	874.000.99	
Pollution Control Series AA due Sept 1, 2027	395,127 00	
Pollution Control Series BB due Sept 1, 2026	186.751 36	
Pollution Control Series CC due Sept 1. 2026	203,134 23	
Pollution Control Series DD due Nov 1, 2027	219.843 02	
Pollution Control Series EE due Nov 1, 2027	219,876.67	
Pollution Control Series FF due Oct 1, 2032	920,888.48	
Pollution Control Series GG due Oct 1, 2033	3.054,288 29	
Pollution Control Series HH due Feb 1, 2035	1,001,154 40	
Pollution Control Bonds due Jun 1, 2033	592.562 24	
Pollution Control Bonds due Jun. 1, 2033	554,294 31	
Pollution Control Bonds due Jun. 1. 2033	1,172.062 51	
UNAMORTIZED LOSS ON BONDS		19.360,334 68
Refinanced and Called Bonds	19,360,334 68	
OTHER DEFERRED DEBITS	40,493,172 85	40,493,172 85
DEFERRED REGULATORY ASSET		166.250,119 76
Asset Retirement Obligations		
Electric	18.577,731 84	
Gas	5,090.817 13	
Common	22,770 32	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	3,131,313 07	
MISO Exit Fee	13,139.016 40	
ACCUMULATED DEFERRED INCOME TAXES		51,818,618 60
Federal		
Electric	36,901,939 02	
Gas	7.018.050 16	
State		
Electric	6,882,886 81	
Gas	1,015,742 61	

*Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880.000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845.00	10,810,000

Total Assets and Other Debits	3,029,594,418.59	3,029,594,418.59

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,126,335,041.21
Common Stock	425,170,424.09	
Retained Earnings	670,172,687.76	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(8,172,182.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000.00	363,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		105,533,000.00
Money Pool Payable	105,533,000.00	
ACCOUNTS PAYABLE		89,265,726.81
Regular	86,427,921.50	
Salaries and Wages Accrued	1,721,055.03	
Tax Collections - Payable	1,116,750.28	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		29,601,712.83
E.ON US Services/Kentucky Utilities	29,601,712.83	
CUSTOMERS' DEPOSITS	19,059,437.62	19,059,437.62
Customers' Deposits		
TAXES ACCRUED	22,994,312.06	22,994,312.06
Taxes Accrued		
INTEREST ACCRUED		9,626,278.84
Loan Agreement - Pol. Cont. Bonds 2000 Series A	86,666.67	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	182,526.82	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	6,988.60	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	57,174.67	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	69,880.14	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	89,657.52	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	88,938.64	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	91,092.24	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	439,882.66	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	29,166.68	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	9,945.86	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	11,293.37	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	942,999.98	
Interest Rate Swaps	96,748.61	
Fidelia	6,650,753.32	
Customers' Deposits	772,563.06	
ST OBLIGATIONS UNDER CAPITAL LEASES	464,166.57	464,166.57
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,167,934.07
Customer Overpayments	2,331,104.20	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,642,413.83	
Derivative Liabilities - Non-Hedging	306,839.57	
Postretirement Benefits - Current	2,248,334.00	
Other	389,242.47	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	118,249.00	118,249.00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		16,627,256.05
Line Extensions		
Electric	799,072.49	
Gas	8,083,864.86	
Customer Advances - Arena	7,744,318.70	
ASSET RETIREMENT OBLIGATIONS		29,198,729.53
Electric	21,504,191.76	
Gas	7,669,188.99	
Common	25,348.78	
OTHER DEFERRED CREDITS	41,951,720.60	41,951,720.60
REGULATORY LIABILITIES		53,862,719.43
Asset Retirement Obligations		
Electric	219,109.82	
Gas	96,424.86	
Deferred Taxes		
Federal		
Electric	26,695,003.75	
Gas	1,705,343.50	
State		
Electric	18,829,272.00	
Gas	2,697,123.50	
MISO Schedule 10 Charges	3,620,442.00	
INVESTMENT TAX CREDIT		46,880,375.29
Job Development Credit		
Electric	33,912,442.30	
Gas	1,188,306.99	
Advanced Coal Credit	11,779,626.00	
ACCUMULATED DEFERRED INCOME TAXES		393,203,395.03
Federal		
Electric	292,562,346.01	
Gas	43,927,433.65	
Common	(54,580.00)	
State		
Electric	49,863,054.87	
Gas	6,906,557.50	
Common	(1,417.00)	
Netting Out Deferred Tax Liabilities		
MISCELLANEOUS LONG-TERM LIABILITIES		6,607,120.00
Workers' Compensation	6,030,948.00	
Uncertain Tax Positions	576,172.00	
ACCUMULATED PROVISION FOR BENEFITS		90,793,243.65
Pension Payable	(3,967,637.00)	
Postretirement Benefits - FAS 106	91,140,837.65	
Post Employment Benefits Payable	3,620,043.00	
Total Liabilities and Other Credits	3,029,594,418.59	3,029,594,418.59

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
SEPTEMBER 30, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	100,538,666.78	90,315,369.22
Items not requiring (providing) cash currently:		
Depreciation	88,845,503.22	87,899,758.86
Amortization	4,755,128.80	4,380,864.19
Deferred income taxes - net	8,786,282.36	(7,042,849.05)
Investment tax credit - net	5,810,138.15	(3,027,624.17)
Other	(3,535,573.04)	(1,563,130.60)
Change in receivables	29,921,434.05	130,941,027.29
Change in inventory	(5,500,578.23)	32,057,275.21
Change in allowance inventory	3,029.31	4,463.50
Change in payables and accrued expenses	(86,609,671.27)	(67,270,783.71)
Change in other regulatory assets	(2,630,416.22)	(8,520,169.99)
Change in other regulatory liabilities	(1,507,851.43)	5,855,965.57
Change in other deferred debits	(4,055,956.40)	(62,158.83)
Change in other deferred credits	(9,326,314.69)	32,977,424.97
Other	(2,750,849.63)	(7,652,964.64)
Net cash provided (used) by operating activities	122,742,971.76	289,292,467.82
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(137,354,183.74)	(104,061,755.28)
Change in long-term investments	5,458.27	(79,826.21)
Change in restricted cash	(4,689,976.47)	665,502.14
Net cash provided (used) by investing activities	(142,038,701.94)	(103,476,079.35)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	261,458,413.55	(1,821.17)
Net increase in short-term debt	37,709,000.00	-
Net increase in short-term capital lease obligations	464,166.57	-
Net increase in long-term capital lease obligations	118,249.00	-
Payments for retirement of long-term debt	(126,000,000.00)	-
Payments for retirement of preferred stock	(91,643,112.60)	(1,250,000.00)
Net decrease in short-term debt	-	(88,908,000.00)
Dividends on preferred stock	(4,416,711.93)	(2,625,273.51)
Dividends on common stock	(65,000,000.00)	(95,000,000.00)
Net cash provided (used) by financing activities	12,690,004.59	(187,785,094.68)
'ET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,605,725.59)	(1,968,706.21)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,843,261.44	5,129,976.27

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
SEPTEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	93,798.91	350,482.41	808,260.26	635,719.95	1,039,371.99
1992 Series A Variable TC	-	178,273.96	670,142.71	1,542,156.11	1,212,830.38	1,982,827.38
1993 Series A Variable Rate	-	104,269.15	392,885.10	909,027.98	711,575.27	1,163,760.26
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	81,250.00	72,916.67	700,763.89	644,076.44	927,638.90	821,909.77
2000 Series A Variable TC	274,195.30	242,365.96	2,441,764.12	2,172,342.07	3,265,551.21	2,814,572.27
2001 Series A Variable Rate	44,637.23	34,569.70	299,269.29	263,523.54	392,860.38	336,230.25
2001 Series A Variable Rate	68,763.70	66,464.38	620,858.26	582,269.18	823,389.09	744,161.67
2001 Series A Variable Rate TC	84,044.52	81,234.25	758,826.72	711,662.32	1,006,364.40	910,619.18
2001 Series B Variable Rate	107,780.82	104,136.99	968,052.09	918,171.94	1,285,641.12	1,176,562.34
2001 Series B Variable Rate TC	107,061.64	104,136.98	967,333.20	917,853.45	1,284,922.23	1,174,689.04
2002 Series A Variable Rate TC	138,807.24	122,095.54	1,180,540.69	1,072,371.47	1,556,804.16	1,374,322.86
2003 Series A Variable Rate	399,893.32	370,559.99	3,534,104.92	3,239,768.89	4,679,100.48	4,129,297.78
2005 Series A Variable Rate	127,166.67	111,677.78	1,096,749.99	994,816.65	1,453,794.40	1,278,483.29
2007 Series A Variable Rate	99,113.89	-	494,684.25	-	494,684.25	-
2007 Series B Variable Rate	109,051.56	-	566,319.12	-	566,319.12	-
2007 Series A Variable Rate (4.6%)	230,000.00	-	1,211,333.36	-	1,211,333.36	-
Interest Rate Swaps	96,748.61	144,545.09	1,111,196.24	1,561,688.87	1,489,272.74	2,363,174.33
Notes/Debentures	15,895.00	-	3,317,243.17	-	3,317,243.17	-
Fidelia	1,596,741.66	911,875.01	12,042,128.35	8,206,875.09	14,777,753.38	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.67	345,972.25	917,968.77	639,722.24	1,230,078.12
Total	3,581,151.16	2,840,837.03	33,070,650.13	25,462,833.03	41,732,520.23	33,482,560.65
Amortization of Debt Expense - Net						
Amortization of Debt Expense	33,738.61	34,054.02	299,376.78	306,486.18	401,538.84	408,635.16
Amort. of Loss on Reacquired Debt	86,701.35	85,136.01	775,301.90	766,224.09	1,030,709.93	1,021,655.16
Total	120,439.96	119,190.03	1,074,678.68	1,072,710.27	1,432,248.77	1,430,290.32
Other Interest Charges						
Customers' Deposits	80,437.92	72,307.47	717,160.40	668,377.34	951,263.25	880,277.07
Federal Income Tax Deficiencies	-	1,441,859.99	(1,058,734.31)	2,344,010.99	(1,058,734.31)	2,344,010.99
Other Tax Deficiencies	(1,136.00)	-	1,922.71	213.87	1,922.71	769,385.87
Gas Refunds	-	475.76	2,447.64	951.52	3,874.92	951.52
Interest on Debt to Associated Companies	447,223.38	2,463.26	2,811,059.52	1,002,504.68	3,671,212.51	2,052,546.69
Other	-	-	8,581.56	-	8,581.56	-
Total	526,525.30	1,517,106.48	2,482,437.52	4,016,058.40	3,578,120.64	6,047,172.14
Total Interest	4,228,116.42	4,477,133.54	36,627,766.33	30,551,601.70	46,742,889.64	40,960,023.11

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
SEPTEMBER 30, 2007

Kind of Taxes	Current Month		Year To Date	
	This Year	Last Year	This Year	Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	297,962.59	1,145,950.29	10,808,002.28	10,314,635.17
Unemployment	6,982.10	10,264.59	106,209.94	127,079.68
Federal Old Age and Survivors Insurance	501,385.20	469,930.21	4,584,117.97	4,380,330.96
Public Service Commission Fee	161,615.66	158,705.95	1,437,082.70	1,304,817.35
Federal Income	2,350,143.81	(6,445,478.21)	33,224,888.50	45,174,805.67
State Income	1,217,257.42	(1,885,314.66)	7,510,437.72	8,565,665.24
Miscellaneous	-	-	13,780.42	(135,902.01)
Total Charged to Operating Expense	4,535,346.78	(6,545,941.83)	57,684,519.53	69,731,432.06
Taxes Charged to Other Accounts	346,973.36	189,152.00	909,466.39	1,346,497.26
Taxes Accrued on Intercompany Accounts	(181,830.99)	(146,570.01)	(1,796,866.04)	(1,698,503.30)
Total Taxes Charged	4,700,489.15	(6,503,359.84)	56,797,119.88	69,379,426.02

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	10,892,597.00	14,097,369.63	10,721,196.61
State Unemployment	18,782.64	19,897.06	37,888.86	790.84
Federal Unemployment	29,205.50	24,993.17	53,066.21	1,132.46
Federal Old Age and Survivors	561,717.23	3,950,081.02	4,157,062.98	354,735.27
Federal Income	6,350,985.46	32,074,973.29	34,438,492.20	3,987,466.55
State Income	7,726,946.43	7,202,839.69	7,308,172.00	7,621,614.12
Kentucky Sales and Use Tax	10,878.70	2,560,255.71	2,263,723.20	307,411.21
Miscellaneous	0.37	71,482.94	71,518.31	(35.00)
Totals	28,624,485.57	56,797,119.88	62,427,293.39	22,994,312.06

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
SEPTEMBER 30, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	12,927,590.62	(2,474,249.00)	(863.74)	10,452,477.88	1,955,710,403.21
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	290,574.32	(158,697.00)	-	131,877.32	225,568,660.31
Transmission	240,067,695.28	14,518,254.97	(534,549.54)	(3,177.21)	13,980,528.22	254,048,223.50
Distribution	754,284,748.12	5,592,579.72	(4,364,678.44)	(60,096.92)	1,167,804.36	755,452,552.48
General	16,886,738.80	81,698.49	(275,858.33)	(36,652.65)	(230,812.49)	16,655,926.31
Total Electric	3,199,821,117.16	33,476,967.31	(7,808,032.31)	(100,797.02)	25,568,137.98	3,225,389,255.14
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	272,556.64	(63,177.02)	-	209,379.62	61,257,669.39
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	3,822,139.68	(67,602.84)	(2,319.15)	3,752,217.69	443,873,007.07
General	10,346,233.87	298,651.00	(1,571,058.35)	(33,407.63)	(1,305,814.98)	9,040,418.89
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	4,401,164.06	(1,701,838.21)	(35,726.78)	2,663,599.07	529,214,180.93
Common						
Intangible	28,877,505.07	3,238,892.08	-	-	3,238,892.08	32,116,397.15
General	150,813,423.54	4,577,587.69	(1,629,371.74)	-	2,948,215.95	153,761,639.49
Total Common	179,690,928.61	7,816,479.77	(1,629,371.74)	-	6,187,108.03	185,878,036.64
Total Plant in Service	3,906,062,627.63	45,694,611.14	(11,139,242.26)	(136,523.80)	34,418,845.08	3,940,481,472.71
Construction Work In Progress						
Electric	154,377,558.86	65,104,331.85	-	-	65,104,331.85	219,481,890.71
Gas	54,810,960.24	18,464,956.84	-	-	18,464,956.84	73,275,917.08
Common	8,684,890.86	6,678,021.82	-	-	6,678,021.82	15,362,912.68
Total Construction Work In Progress	217,873,409.96	90,247,310.51	-	-	90,247,310.51	308,120,720.47
Total Utility Plant at Original Cost	4,123,936,037.59	135,941,921.65	(11,139,242.26)	(136,523.80)	124,666,155.59	4,248,602,193.18

LOUISVILLE GAS ANL __ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
SEPTEMBER 30, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE *FIRST OF YEAR*	*ACCRUALS*	*RETIREMENTS*	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(62,815,479.00)	7,808,032.31	-	-	-	-	(5,897,320.38)	(1,360,464,048.86)
Electric - ARO Steam	(2,049,614.55)	(117,620.02)	-	-	-	-	-	-	(2,167,234.57)
Electric - ARO Hydro	(15,828.80)	(865.62)	-	-	-	-	-	-	(16,694.42)
Electric - ARO Other Production	(108,105.20)	(5,887.50)	-	-	-	-	-	-	(113,992.70)
Electric - ARO Transmission	(2,165.47)	(127.22)	-	-	-	-	-	-	(2,292.69)
Electric - ARO Distribution	(12,001.89)	(274.23)	-	-	-	-	-	-	(12,276.12)
Gas	(148,577,916.87)	(7,776,154.67)	1,701,838.21	-	-	-	-	-	(154,652,233.33)
Gas - ARO Underground Storage	(392,040.25)	(6,812.46)	-	-	-	-	-	-	(398,852.71)
Gas - ARO Distribution	(19,101.73)	(57.71)	-	-	-	-	-	-	(19,159.44)
Common - ARO	*(1,130.96)*	*(25.74)*	-	-	-	-	-	-	(1,156.70)
Common	(62,084,425.21)	(5,607,360.06)	1,629,371.74	-	-	-	-	-	(66,062,413.53)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(76,330,664.23)	11,139,242.26	-	-	-	-	(5,897,320.38)	(1,583,910,355.07)
Salvage Reserves									
Steam Production	(46,966,253.01)	(4,313,503.02)	-	-	-	817,678.18	(269,883.65)	-	*(50,731,961.50)*
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	2,644.83	-	-	(2,090,919.89)
Transmission	(16,367,877.32)	(818,593.44)	-	-	-	428,864.90	-	-	(16,757,605.86)
Distribution	(132,166,536.49)	(4,547,153.58)	-	-	-	1,953,343.97	(57,261.41)	-	(134,817,607.51)
Distribution General	89,695.45	*17,021.81*	-	-	-	487.32	-	-	107,204.58
Gas Stored Underground	249,305.84	(169,609.66)	-	-	-	18,102.09	-	-	97,798.27
Gas Transmission	(2,644,672.08)	(77,965.65)	-	-	-	-	-	-	(2,722,637.73)
Gas Distribution	(47,306,815.37)	(3,196,013.12)	-	-	-	113,859.92	(4,580.74)	-	(50,393,549.31)
Gas General	148,519.46	31,472.12	-	-	-	-	-	-	179,991.58
Common	*(354,458.62)*	*(44,009.33)*	-	-	-	180,103.63	-	-	(218,364.32)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(13,118,353.87)	-	-	-	3,515,084.84	(331,725.80)	-	(257,870,364.83)
Total Reserves									
Electric	(1,499,774,246.93)	(72,602,481.82)	7,808,032.31	-	-	3,203,019.20	(327,145.06)	(5,897,320.38)	(1,567,590,142.68)
Gas	(198,542,721.00)	(11,195,141.15)	1,701,838.21	-	-	131,962.01	(4,580.74)	-	*(207,908,642.67)*
Common	(62,440,014.79)	(5,651,395.13)	1,629,371.74	-	-	180,103.63	-	-	(66,281,934.55)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(89,449,018.10)	11,139,242.26	-	-	3,515,084.84	(331,725.80)	(5,897,320.38)	(1,841,780,719.90)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(972,202.81)	(4,526.20)	497.82	37,152.02	1,634,811.03
Gas	(465,950.02)	-	-	620,863.56	(42,658.23)	17,914.15	-	-	130,169.46
Common	(502,243.45)	-	-	567,920.37	(20,862.21)	(64,549.29)	-	-	(19,734.58)
Total 108001 RWIP	*2,800,302.69*	-	-	*(5,822.03)*	*(1,035,723.25)*	*(51,161.34)*	497.82	37,152.02	1,745,245.91
108901									
Electric	8,273,600.70	-	-	6,244,184.17	3,990,094.45	(5,263,243.76)	(249,171.40)	(2,037,909.32)	10,957,554.84
Gas	3,107,219.25	-	-	198,479.08	(81,168.44)	518,893.43	-	-	3,743,423.32
Common	*(4,637,184.09)*	-	-	(5,698,720.60)	(159,241.42)	10,711,962.57	2,800.00	-	219,616.46
Total 108901 RWIP	6,743,635.86	-	-	743,942.65	3,749,684.59	5,967,612.24	(246,371.40)	(2,037,909.32)	14,920,594.62
Total RWIP	9,543,938.55	-	-	738,120.62	2,713,961.34	5,916,450.90	(245,873.58)	(2,000,757.30)	16,665,840.53
YTD Activity	(1,751,213,044.17)	(89,449,018.10)	11,139,242.26	738,120.62	2,713,961.34	9,431,535.74	(577,599.38)	(7,898,077.68)	(1,825,114,879.37)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	*(800.00)*
Common	(15,376,657.84)	(4,755,128.80)	-	-	-	-	-	-	(20,131,786.64)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(4,755,128.80)	-	-	-	-	-	-	(20,132,686.64)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(94,204,146.90)	11,139,242.26	738,120.62	2,713,961.34	9,431,535.74	(577,599.38)	(7,898,077.68)	(1,845,247,566.01)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,403,354,627.17

LG&E Monthly Report to KPSC – August 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

August 31, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	103,671,521.00	99,694,674.43	3,976,846.57	3.99
Gas Operating Revenues	10,864,114.95	11,014,927.58	(150,812.63)	(1.37)
Total Operating Revenues	114,535,635.95	110,709,602.01	3,826,033.94	3.46
Fuel for Electric Generation	36,200,186.63	33,524,599.44	2,675,587.19	7.98
Power Purchased	5,229,682.04	7,879,703.59	(2,650,021.55)	(33.63)
Gas Supply Expenses	6,407,791.80	5,943,355.35	464,436.45	7.81
Other Operation Expenses	15,002,161.46	17,963,440.57	(2,961,279.11)	(16.49)
Maintenance	5,088,326.30	6,093,266.46	(1,004,940.16)	(16.49)
Depreciation	9,764,934.79	9,840,957.26	(76,022.47)	(0.77)
Amortization Expense	519,276.89	519,167.59	109.30	0.02
Regulatory Credits	(163,026.95)	(152,401.35)	(10,625.60)	6.97
Taxes				
Federal Income	(6,975,781.00)	-	(6,975,781.00)	(100.00)
State Income	(961,205.00)	-	(961,205.00)	(100.00)
Deferred Federal Income - Net	5,418,265.45	-	5,418,265.45	100.00
Deferred State Income - Net	864,200.84	-	864,200.84	100.00
Federal Income - Estimated	9,870,170.02	7,924,432.90	1,945,737.12	24.55
State Income - Estimated	1,880,032.38	1,760,985.10	119,047.28	6.76
Property and Other	2,118,404.78	1,713,060.15	405,344.63	23.66
Investment Tax Credit	979,626.00	-	979,626.00	100.00
Amortization of Investment Tax Credit	(329,242.00)	(335,139.00)	5,897.00	(1.76)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.90	10,570.23	7.67
Total Operating Expenses	91,062,145.56	92,813,198.96	(1,751,053.40)	(1.89)
Net Operating Income	23,473,490.39	17,896,403.05	5,577,087.34	31.16
Other Income Less Deductions	887,232.39	1,998,716.43	(1,111,484.04)	(55.61)
Income Before Interest Charges	24,360,722.78	19,895,119.48	4,465,603.30	22.45
Interest on Long Term Debt	3,662,918.22	2,941,296.71	721,621.51	24.53
Amortization of Debt Expense - Net	120,070.91	119,190.03	880.88	0.74
Other Interest Expenses	463,119.17	56,257.76	406,861.41	723.21
Total Interest Charges	4,246,108.30	3,116,744.50	1,129,363.80	36.24
Net Inc Before Cumulative Effect of Acctg Chg	20,114,614.48	16,778,374.98	3,336,239.50	19.88
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	20,114,614.48	16,778,374.98	3,336,239.50	19.88
Preferred Dividend Requirements	-	330,863.23	(330,863.23)	(100.00)
Earnings Available for Common	20,114,614.48	16,447,511.75	3,667,102.73	22.30

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	640,837,784.99	631,763,060.63	9,074,724.36	1.44
Gas Operating Revenues	226,118,624.16	276,046,604.68	(49,927,980.52)	(18.09)
Total Operating Revenues	866,956,409.15	907,809,665.31	(40,853,256.16)	(4.50)
Fuel for Electric Generation	219,425,099.57	198,335,228.54	21,089,871.03	10.63
Power Purchased	54,301,187.82	72,172,975.24	(17,871,787.42)	(24.76)
Gas Supply Expenses	162,928,841.31	212,401,604.28	(49,472,762.97)	(23.29)
Other Operation Expenses	114,086,094.18	123,941,216.02	(9,855,121.84)	(7.95)
Maintenance	49,083,374.43	50,514,082.16	(1,430,707.73)	(2.83)
Depreciation	79,030,441.65	78,116,628.18	913,813.47	1.17
Amortization Expense	4,277,505.10	3,839,788.32	437,716.78	11.40
Regulatory Credits	(1,288,636.24)	(1,218,386.89)	(70,249.35)	5.77
Taxes				
Federal Income	13,452,831.85	34,272,918.67	(20,820,086.82)	(60.75)
State Income	2,974,720.72	6,596,009.84	(3,621,289.12)	(54.90)
Deferred Federal Income - Net	5,498,196.60	(10,285,600.74)	15,783,797.34	(153.46)
Deferred State Income - Net	1,104,122.80	(2,274,282.33)	3,378,405.13	(148.55)
Federal Income - Estimated	17,421,912.84	17,347,365.21	74,547.63	0.43
State Income - Estimated	3,318,459.58	3,854,970.06	(536,510.48)	(13.92)
Property and Other	15,981,247.76	14,206,110.11	1,775,137.65	12.50
Investment Tax Credit	6,179,626.00	-	6,179,626.00	100.00
Amortization of Investment Tax Credit	(2,646,558.72)	(2,703,864.79)	57,306.07	(2.12)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,187,552.84	1,101,343.24	86,209.60	7.83
Total Operating Expenses	745,762,927.40	799,213,499.05	(53,450,571.65)	(6.69)
Net Operating Income	121,193,481.75	108,596,166.26	12,597,315.49	11.60
Other Income Less Deductions	372,590.57	169,251.02	203,339.55	120.14
Income Before Interest Charges	121,566,072.32	108,765,417.28	12,800,655.04	11.77
Interest on Long Term Debt	29,489,498.97	22,621,996.00	6,867,502.97	30.36
Amortization of Debt Expense - Net	954,238.72	953,520.24	718.48	0.08
Other Interest Expenses	1,955,912.22	2,498,951.92	(543,039.70)	(21.73)
Total Interest Charges	32,399,649.91	26,074,468.16	6,325,181.75	24.26
Net Inc Before Cumulative Effect of Acctg Chg	89,166,422.41	82,690,949.12	6,475,473.29	7.83
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	89,166,422.41	82,690,949.12	6,475,473.29	7.83
Preferred Dividend Requirements	941,636.24	2,468,160.29	(1,526,524.05)	(61.85)
Earnings Available for Common	88,224,786.17	80,222,788.83	8,001,997.34	9.97

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	951,735,252.92	963,216,372.61	(11,481,119.69)	(1.19)
Gas Operating Revenues	345,301,598.14	463,671,960.42	(118,370,362.28)	(25.53)
Total Operating Revenues	1,297,036,851.06	1,426,888,333.03	(129,851,481.97)	(9.10)
Fuel for Electric Generation	313,660,715.26	300,157,390.34	13,503,324.92	4.50
Power Purchased	95,961,837.19	122,869,091.20	(26,907,254.01)	(21.90)
Gas Supply Expenses	245,810,698.79	365,993,190.51	(120,182,491.72)	(32.84)
Other Operation Expenses	179,986,342.51	208,863,043.78	(28,876,701.27)	(13.83)
Maintenance	77,604,946.02	70,720,368.82	6,884,577.20	9.73
Depreciation	118,896,083.73	117,682,232.93	1,213,850.80	1.03
Amortization Expense	6,305,072.30	5,745,040.04	560,032.26	9.75
Regulatory Credits	(2,331,185.86)	(13,772,295.75)	11,441,109.89	(83.07)
Taxes				
Federal Income	41,834,706.74	74,302,244.01	(32,467,537.27)	(43.70)
State Income	7,740,096.08	9,560,366.76	(1,820,270.68)	(19.04)
Deferred Federal Income - Net	8,759,036.14	(15,490,636.70)	24,249,672.84	(156.54)
Deferred State Income - Net	2,165,281.63	(2,873,945.42)	5,039,227.05	(175.34)
Federal Income - Estimated	74,547.63	805,767.97	(731,220.34)	(90.75)
State Income - Estimated	(536,510.48)	(396,737.19)	(139,773.29)	35.23
Property and Other	23,483,828.95	21,101,073.17	2,382,755.78	11.29
Investment Tax Credit	9,179,626.00	-	9,179,626.00	100.00
Amortization of Investment Tax Credit	(3,964,355.37)	(4,056,695.57)	92,340.20	(2.28)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,144,251.19	1,334,995.24	809,255.95	60.62
Total Operating Expenses	1,126,221,925.76	1,261,539,888.07	(135,317,962.31)	(10.73)
Net Operating Income	170,814,925.30	165,348,444.96	5,466,480.34	3.31
Other Income Less Deductions	(518,949.25)	976,587.69	(1,495,536.94)	(153.14)
Income Before Interest Charges	170,295,976.05	166,325,032.65	3,970,943.40	2.39
Interest on Long Term Debt	40,992,206.10	33,222,986.73	7,769,219.37	23.39
Amortization of Debt Expense - Net	1,430,998.84	1,430,036.20	962.64	0.07
Other Interest Expenses	4,568,701.82	4,720,226.41	(151,524.59)	(3.21)
Total Interest Charges	46,991,906.76	39,373,249.34	7,618,657.42	19.35
Net Inc Before Cumulative Effect of Acctg Chg	123,304,069.29	126,951,783.31	(3,647,714.02)	(2.87)
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	123,304,069.29	119,530,211.81	3,773,857.48	3.16
Preferred Dividend Requirements	2,178,840.62	3,539,116.24	(1,360,275.62)	(38.44)
Earnings Available for Common	121,125,228.67	115,991,095.57	5,134,133.10	4.43

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
AUGUST 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period...............................	638,685,828.91	624,756,775.52	639,104,729.77	620,981,498.44	641,204,287.27	585,213,191.70
Add:						
Credits from Income.......................................	20,114,614.48	16,778,374.98	89,166,422.41	82,690,949.12	123,304,069.29	119,530,211.81
FIN 48 Adjustment..	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings.........................	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series..			746,782.16	537,682.38	675,090.62	1,075,366.24
Without Par Value						
Auction Rate....................................			624,999.99	1,268,750.01	1,503,750.00	2,463,750.00
Preferred Dividends Accrued						
$25 Par Value						
5% Series..	-	89,613.23	(430,145.91)	179,227.90		
Without Par Value						
Auction Rate....................................	-	241,250.00		482,500.00		
Common Dividends						
Common Stock Without Par Value.................	-	-	65,000,000.00	60,000,000.00	100,000,000.00	60,000,000.00
Balance at End of Period.......................................	658,800,443.39	641,204,287.27	658,800,443.39	641,204,287.27	658,800,443.39	641,204,287.27

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF AUGUST 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,228,418,074.84	4,094,043,612.55
Less Reserves for Depreciation & Amortization	1,835,625,059.70	1,766,752,572.36
Total	2,392,793,015.14	2,327,291,040.19
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	139,637.83
Special Funds	20,221,479.35	144,084.27
Other	-	-
Total	20,827,644.55	878,008.10
Current and Accrued Assets		
Cash	3,342,432.47	5,961,798.31
Special Deposits	20,015.10	7,636,465.16
Temporary Cash Investments	35,352.45	3,121.48
Accounts Receivable-Less Reserve	142,109,940.74	120,674,578.24
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	8,437,602.78	32,439,159.60
Materials & Supplies-At Average Cost		
Fuel	36,220,813.67	41,980,116.29
Plant Materials & Operating Supplies	26,049,745.04	24,953,421.92
Stores Expense	4,641,229.66	4,254,887.05
Gas Stored Underground	68,936,396.00	71,692,624.14
Allowance Inventory	12,670.06	17,438.88
Prepayments	3,146,002.33	3,097,915.48
Miscellaneous Current & Accrued Assets	1,534,393.13	2,357,557.08
Total	294,486,593.43	315,069,083.63
Deferred Debits and Other		
Unamortized Debt Expense	9,780,414.33	8,268,260.84
Unamortized Loss on Bonds	19,447,035.99	19,963,817.03
Accumulated Deferred Income Taxes	51,828,298.57	88,896,919.29
Deferred Regulatory Assets	165,950,231.25	22,344,128.59
Other Deferred Debits	38,956,921.85	69,404,239.52
Total	285,962,901.99	208,877,365.27
Total Assets and Other Debits	2,994,070,155.11	2,852,115,497.19

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(7,618,941.00)	(54,908,305.19)
Retained Earnings	658,800,443.39	641,204,287.27
Total Common Equity	1,115,516,037.84	1,050,630,517.53
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,052,820,037.84	1,939,109,111.58
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	82,435,000.00	-
Notes Payable to Associated Companies	-	(3,958,000.00)
Notes Payable	-	-
Accounts Payable	91,272,839.30	89,189,679.27
Accounts Payable to Associated Companies	18,567,980.27	35,792,831.95
Customer Deposits	18,808,737.62	17,955,084.72
Taxes Accrued	28,474,991.85	40,274,291.43
Interest Accrued	8,232,549.31	5,642,308.06
Dividends Declared	-	661,726.46
ST Obligations Under Capital Leases	478,848.37	-
Misc. Current & Accrued Liabilities	11,314,105.08	8,325,982.95
Total	259,585,051.80	195,133,904.84
Deferred Credits and Other		
LT Obligations Under Capital Leases	141,899.00	-
Accumulated Deferred Income Taxes	395,539,339.04	398,281,949.94
Investment Tax Credit	44,603,304.42	39,388,033.79
Regulatory Liabilities	54,806,456.70	43,838,483.94
Customer Advances for Construction	21,321,522.21	9,876,435.38
Asset Retirement Obligations	29,237,741.22	27,500,861.79
Other Deferred Credits	36,105,080.91	71,015,542.15
Misc. Long-Term Liabilities	6,676,022.04	68,965,853.40
Accum Provision for Post-Retirement Benefits	93,233,699.93	59,005,320.38
Total	681,665,065.47	717,872,480.77
Total Liabilities and Other Credits	2,994,070,155.11	2,852,115,497.19

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
AUGUST 31, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(7,618,941.00)		
Retained Earnings			658,800,443.39		
Total Common Equity			1,115,516,037.84	52.24	54.34
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.90	27.98
LT Notes Payable to Associated Companies			363,000,000.00	17.00	17.68
Total Capitalization			2,052,820,037.84	96.14	100.00
ST Notes Payable to Associated Companies			82,435,000.00	3.86	
Total Capitalization and Short-Term Debt			2,135,255,037.84	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,228,418,074 84	4,228,418,074 84
Reserves for Depreciation and Amortization		(1,835,625,059 70)
Electric	(1,547,649,817 41)	
Gas	(202,823,944 06)	
Common	(65,496,235 29)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(19,654,162 94)	
INVESTMENTS - AT COST		20,827,644 55
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	20,221,479 35	
CASH		3,342,432 47
JP Morgan Chase	324,232 52	
BB&T	11,695 39	
Bank of America	734,661 85	
Town and Country Bank	22,617 97	
US Bank	2,162,065 89	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		20,015 10
MAN Margin Call	20,015 10	
TEMPORARY CASH INVESTMENTS		35,352 45
Other	35,352 45	
ACCOUNTS RECEIVABLE - LESS RESERVE		142,109,940 74
Working Funds	21,280 00	
Customers-Active	78,276,907 94	
Wholesale Sales	2,656,298 53	
Transmission Sales	236,841 47	
Unbilled Revenues	49,119,000 00	
Employee Computer Loans	103,971 68	
Damage Claims	715,872 81	
Officers and Employees	600 00	
Tax Refunds	3,016,535 57	
IMEA	2,114,471 93	
IMPA	2,194,387 27	
Other	4,813,087 74	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(946,931 00)	
Accrual	(1,374,772 91)	
Charged Off	3,002,871 31	
Recoveries	(1,628,098 40)	
A/R Miscellaneous	(589,623 00)	
Interest and Dividends Receivable	2,278 46	
Rents Receivable	374,961 34	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		8,437,602 78
E ON US Services/Kentucky Utilities	8,437,602 78	
FUEL		36,220,813 67
Coal 1,000,896.25 Tons @ $36 01; MMBTU 23,074,202 49 @ 156 20¢	36,041,372 90	
Fuel Oil 166,045 Gallons @ 155 83¢	258,750 81	
Gas Pipeline (11,536 00) MCF @ ($6 88)	(79,310 04)	
PLANT MATERIALS AND OPERATING SUPPLIES		26,049,745 04
Regular Materials and Supplies	25,755,084 07	
Limestone 44,057 91 Tons @ $6 69	294,660 97	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4.641.229 66
Stores Expense Undistributed	4.641.229 66	
GAS STORED UNDERGROUND - CURRENT		68.936.396 00
Gas St Underground*9.418.651 MCF (14 73 psia) @ $7 32	68.936.396 00	
ALLOWANCE INVENTORY		12.670 06
Allowance Inventory	12.670 06	
PREPAYMENTS		3.146.002 33
Insurance	844.630 09	
Franchises	62,207 51	
Taxes	1,616,156 55	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	28,022 26	
Other	224,985 89	
MISCELLANEOUS CURRENT ASSETS		1,534.393 13
Miscellaneous Current Assets	3.834 01	
Derivative Asset - Non-Hedging	1,530,559 12	
UNAMORTIZED DEBT EXPENSE		9,780,414 33
Pollution Control Series Y due May 1. 2027	469,978 49	
Pollution Control Series Z due Aug 1, 2030	877.190 99	
Pollution Control Series AA due Sept 1, 2027	396,780 00	
Pollution Control Series BB due Sept 1, 2026	187,574 36	
Pollution Control Series CC due Sept 1, 2026	204,029 23	
Pollution Control Series DD due Nov 1, 2027	220,755 02	
Pollution Control Series EE due Nov 1. 2027	220,788 67	
Pollution Control Series FF due Oct 1, 2032	923,958 48	
Pollution Control Series GG due Oct 1, 2033	3.064,047 51	
Pollution Control Series HH due Feb 1, 2035	1,004,206 40	
Pollution Control Bonds due Jun 1, 2033	563,453 94	
Pollution Control Bonds due Jun 1. 2033	522,610 17	
Pollution Control Bonds due Jun 1, 2033	1,125,041 07	
UNAMORTIZED LOSS ON BONDS		19,447,035.99
Refinanced and Called Bonds	19,447,035 99	
OTHER DEFERRED DEBITS	38,956,921 85	38,956.921 85
DEFERRED REGULATORY ASSET		165,950,231 25
Asset Retirement Obligations		
Electric	18.450,487.59	
Gas	5,055,155.42	
Common	22,649 33	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	2,994,451 51	
MISO Exit Fee	13,139.016.40	
ACCUMULATED DEFERRED INCOME TAXES		51,828,298 57
Federal		
Electric	37,260,419 77	
Gas	6,667,754 98	
State		
Electric	6,948,263 25	
Gas	951,860 57	

*Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788.845 00	10,810,000

Total Assets and Other Debits	2,994,070,155.11	2,994,070,155.11

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,115,516,037.84
Common Stock	425,170,424.09	
Retained Earnings	658,800,443.39	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(7,618,941.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000.00	363,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		82,435,000.00
Money Pool Payable	82,435,000.00	
ACCOUNTS PAYABLE		91,272,839.30
Regular	88,614,323.55	
Salaries and Wages Accrued	1,458,301.47	
Tax Collections - Payable	1,200,214.28	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		18,567,980.27
E.ON US Services/Kentucky Utilities	18,567,980.27	
CUSTOMERS' DEPOSITS	18,808,737.62	18,808,737.62
Customers' Deposits		
TAXES ACCRUED	28,474,991.85	28,474,991.85
Taxes Accrued		
INTEREST ACCRUED		8,232,549.31
Loan Agreement - Pol. Cont. Bonds 2000 Series A	5,416.67	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	200,004.02	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	4,546.80	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	280,454.81	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	342,778.09	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	293,597.25	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	293,597.55	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	104,105.42	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	39,989.33	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	20,833.34	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	3,358.36	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	3,813.36	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	712,999.98	
Interest Rate Swaps	115,464.15	
Fidelia	5,054,011.66	
Customers' Deposits	757,578.52	
ST OBLIGATIONS UNDER CAPITAL LEASES	478,848.37	478,848.37
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,314,105.08
Customer Overpayments	2,490,569.45	
UK Emission Research Grant	500,000.00	
Vacation Pay Accrued	4,799,673.82	
Derivative Liabilities - Non-Hedging	785,982.20	
Postretirement Benefits - Current	2,248,334.00	
Other	489,545.61	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	141,899.00	141,899.00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		21,321,522.21
Line Extensions		
Electric	799,072.49	
Gas	7,965,680.18	
Customer Advances - Arena	12,556,769.54	
ASSET RETIREMENT OBLIGATIONS		29,237,741.22
Electric	21,578,225.26	
Gas	7,634,285.31	
Common	25,230.65	
OTHER DEFERRED CREDITS	36,105,080.91	36,105,080.91
REGULATORY LIABILITIES		54,806,456.70
Asset Retirement Obligations		
Electric	216,989.75	
Gas	91,833.20	
Deferred Taxes		
Federal		
Electric	27,846,617.75	
Gas	1,650,050.50	
State		
Electric	18,994,203.00	
Gas	2,664,816.50	
MISO Schedule 10 Charges	3,341,946.00	
INVESTMENT TAX CREDIT		44,603,304.42
Investment Tax Credit (prior law)		
Electric	(88.00)	
Job Development Credit		
Electric	34,222,564.37	
Gas	1,201,202.05	
Advanced Coal Credit	9,179,626.00	
ACCUMULATED DEFERRED INCOME TAXES		395,539,339.04
Federal		
Electric	292,826,012.73	
Gas	45,689,880.68	
Common	(54,580.00)	
State		
Electric	49,867,439.79	
Gas	7,212,002.84	
Common	(1,417.00)	
Netting Out Deferred Tax Liabilities		
MISCELLANEOUS LONG-TERM LIABILITIES		6,676,022.04
Workers' Compensation	6,098,714.04	
Uncertain Tax Positions	577,308.00	
ACCUMULATED PROVISION FOR BENEFITS		93,233,699.93
Pension Payable	(3,967,637.00)	
Postretirement Benefits - FAS 106	93,581,293.93	
Post Employment Benefits Payable	3,620,043.00	
Total Liabilities and Other Credits	2,994,070,155.11	2,994,070,155.11

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
AUGUST 31, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	89,166,422.41	82,690,949.12
Items not requiring (providing) cash currently:		
Depreciation	79,030,441.65	78,116,628.18
Amortization	4,277,505.10	3,839,788.32
Deferred income taxes - net	11,112,546.40	(12,317,367.07)
Investment tax credit - net	3,533,067.28	(2,703,864.79)
Other	(178,479.94)	(1,305,661.82)
Change in receivables	34,013,958.02	114,455,394.90
Change in inventory	14,547,674.56	48,369,786.99
Change in allowance inventory	2,732.94	4,003.88
Change in payables and accrued expenses	(84,995,901.70)	(50,799,895.40)
Change in other regulatory assets	(2,330,527.71)	5,175,366.89
Change in other regulatory liabilities	(564,114.16)	1,945,065.84
Change in other deferred debits	(4,806,494.90)	(6,204,561.37)
Change in other deferred credits	(15,172,954.38)	29,381,346.93
Other	3,732,590.16	(605,251.96)
Net cash provided (used) by operating activities	131,368,465.73	290,041,728.64
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(122,555,110.23)	(84,129,351.96)
Change in long-term investments	5,458.27	(147,427.67)
Change in restricted cash	(4,635,646.54)	2,181,382.98
Net cash provided (used) by investing activities	(127,185,298.50)	(82,095,396.65)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	261,573,707.82	(1,821.17)
Net increase in short-term debt	14,611,000.00	-
Net increase in short-term capital lease obligations	478,848.37	-
Net increase in long-term capital lease obligations	141,899.00	-
Payments for retirement of long-term debt	(126,000,000.00)	-
Payments for retirement of preferred stock	(91,643,112.60)	(1,250,000.00)
Net decrease in short-term debt	-	(145,203,000.00)
Dividends on preferred stock	(4,416,711.93)	(2,625,273.51)
Dividends on common stock	(65,000,000.00)	(60,000,000.00)
Net cash provided (used) by financing activities	(10,254,369.34)	(209,080,094.68)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,071,202.11)	(1,133,762.69)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,377,784.92	5,964,919.79

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
AUGUST 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	98,647.95	350,482.41	714,461.35	729,518.86	1,014,595.27
1992 Series A Variable TC	-	184,117.81	670,142.71	1,363,882.15	1,391,104.34	1,936,717.78
1993 Series A Variable Rate	-	110,614.80	392,885.10	804,758.83	815,844.42	1,134,134.40
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	79,930.56	76,909.72	619,513.89	571,159.77	919,305.57	801,354.22
2000 Series A Variable TC	359,662.29	299,188.86	2,167,568.82	1,929,976.11	3,233,721.87	2,747,195.92
2001 Series A Variable Rate	32,866.07	30,606.70	254,632.06	228,953.84	382,792.85	327,347.16
2001 Series A Variable Rate	71,852.06	69,750.00	552,094.56	515,804.80	821,089.77	727,484.96
2001 Series A Variable Rate TC	87,819.18	85,250.00	674,782.20	630,428.07	1,003,554.13	890,638.36
2001 Series B Variable Rate	112,364.39	109,986.31	860,271.27	814,034.95	1,281,997.29	1,151,802.06
2001 Series B Variable Rate TC	112,364.39	109,986.31	860,271.56	813,716.47	1,281,997.57	1,149,752.06
2002 Series A Variable Rate TC	135,268.56	130,245.92	1,041,733.45	950,275.93	1,540,092.46	1,339,621.08
2003 Series A Variable Rate	393,411.56	391,644.45	3,134,211.60	2,869,208.90	4,649,767.15	4,025,404.46
2005 Series A Variable Rate	123,466.67	116,888.89	969,583.32	883,138.87	1,438,305.51	1,246,194.39
2007 Series A Variable Rate	95,066.67	-	395,570.36	-	395,570.36	-
2007 Series B Variable Rate	108,973.33	-	457,267.56	-	457,267.56	-
2007 Series A Variable Rate (4.6%)	237,666.68	-	981,333.36	-	981,333.36	-
Interest Rate Swaps	115,464.15	117,667.31	1,014,447.63	1,417,143.78	1,537,069.22	2,552,046.57
Notes/Debentures	-	-	3,301,348.17	-	3,301,348.17	-
Fidelia	1,596,741.66	911,875.01	10,445,386.69	7,295,000.08	14,092,886.73	10,942,500.14
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.67	345,972.25	820,052.10	737,638.91	1,236,197.90
Total	3,662,918.22	2,941,296.71	29,489,498.97	22,621,996.00	40,992,206.10	33,222,986.73
Amortization of Debt Expense - Net						
Amortization of Debt Expense	33,369.56	34,054.02	265,638.17	272,432.16	401,854.25	408,372.02
Amort. of Loss on Reacquired Debt	86,701.35	85,136.01	688,600.55	681,088.08	1,029,144.59	1,021,664.18
Total	120,070.91	119,190.03	954,238.72	953,520.24	1,430,998.84	1,430,036.20
Other Interest Charges						
Customers' Deposits	82,417.87	76,670.57	636,722.48	596,069.87	943,132.80	875,243.99
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	902,151.00	383,125.68	902,151.00
Other Tax Deficiencies	-	-	3,058.71	213.87	3,058.71	769,385.87
Gas Refunds	88.78	475.76	2,447.64	475.76	4,350.68	475.76
Interest on Debt to Associated Companies	380,612.52	(20,888.57)	2,363,836.14	1,000,041.42	3,226,452.39	2,172,969.79
Other	-	-	8,581.56	-	8,581.56	-
Total	463,119.17	56,257.76	1,955,912.22	2,498,951.92	4,568,701.82	4,720,226.41
Total Interest	4,246,108.30	3,116,744.50	32,399,649.91	26,074,468.16	46,991,906.76	39,373,249.34

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
AUGUST 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,433,534.59	1,138,722.00	10,510,039.69	9,168,684.88
Unemployment	(9,548.95)	1,758.80	99,227.84	116,815.09
Federal Old Age and Survivors Insurance	532,803.48	413,873.40	4,082,732.77	3,910,400.75
Public Service Commission Fee	161,615.66	158,705.95	1,275,467.04	1,146,111.40
Federal Income	2,894,389.02	7,924,432.90	30,874,744.69	51,620,283.88
State Income	918,827.38	1,760,985.10	6,293,180.30	10,450,979.90
Miscellaneous	-	-	13,780.42	(135,902.01)
Total Charged to Operating Expense	5,931,621.18	11,398,478.15	53,149,172.75	76,277,373.89
Taxes Charged to Other Accounts	86,385.67	116,028.19	562,493.03	1,157,345.26
Taxes Accrued on Intercompany Accounts	(203,462.49)	(172,519.64)	(1,615,035.05)	(1,551,933.29)
Total Taxes Charged	5,814,544.36	11,341,986.70	52,096,630.73	75,882,785.86

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	10,585,235.00	14,019,332.57	10,491,871.67
State Unemployment	18,782.64	19,583.70	37,888.86	477.48
Federal Unemployment	29,205.50	24,557.64	53,066.21	696.93
Federal Old Age and Survivors	561,717.23	3,517,336.99	3,764,224.60	314,829.62
Federal Income	6,350,985.46	29,653,747.33	26,902,244.20	9,102,488.59
State Income	7,726,946.43	5,972,304.54	5,519,810.00	8,179,440.97
Kentucky Sales and Use Tax	10,878.70	2,252,844.59	1,878,536.70	385,186.59
Miscellaneous	0.37	71,020.94	71,021.31	(0.00)
Totals	28,624,485.57	52,096,630.73	52,246,124.45	28,474,991.85

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
AUGUST 31, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	12,626,895.11	(2,274,435.64)	(863.74)	10,351,595.73	1,955,609,521.06
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	290,574.32	(158,697.00)	-	131,877.32	225,568,660.31
Transmission	240,067,695.28	14,518,254.97	(534,549.54)	(3,177.21)	13,980,528.22	254,048,223.50
Distribution	754,284,748.12	5,592,579.72	(4,364,678.44)	(60,096.92)	1,167,804.36	755,452,552.48
General	16,886,738.80	81,698.49	(275,858.33)	(36,652.65)	(230,812.49)	16,655,926.31
Total Electric	3,199,821,117.16	33,176,271.80	(7,608,218.95)	(100,797.02)	25,467,255.83	3,225,288,372.99
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	272,556.64	(63,177.02)	-	209,379.62	61,257,669.39
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	1,391,265.80	(63,394.70)	(2,319.15)	1,325,551.95	441,446,341.33
General	10,346,233.87	293,280.81	(1,571,058.35)	(33,407.63)	(1,311,185.17)	9,035,048.70
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	1,964,919.99	(1,697,630.07)	(35,726.78)	231,563.14	526,782,145.00
Common						
Intangible	28,877,505.07	3,034,003.98	-	-	3,034,003.98	31,911,509.05
General	150,813,423.54	4,387,870.87	(1,629,371.74)	-	2,758,499.13	153,571,922.67
Total Common	179,690,928.61	7,421,874.85	(1,629,371.74)	-	5,792,503.11	185,483,431.72
Total Plant in Service	3,906,062,627.63	42,563,066.64	(10,935,220.76)	(136,523.80)	31,491,322.08	3,937,553,949.71
Construction Work In Progress						
Electric	154,377,558.86	52,889,568.19	-	-	52,889,568.19	207,267,127.05
Gas	54,810,960.24	16,962,875.83	-	-	16,962,875.83	71,773,836.07
Common	8,684,890.86	3,138,271.15	-	-	3,138,271.15	11,823,162.01
Total Construction Work In Progress	217,873,409.96	72,990,715.17	-	-	72,990,715.17	290,864,125.13
Total Utility Plant at Original Cost	4,123,936,037.59	115,553,781.81	(10,935,220.76)	(136,523.80)	104,482,037.25	4,228,418,074.84

LOUISVILLE GAS AN... ...ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
AUGUST 31, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(55,955,814.37)	7,608,218.95	-	-	-	-	(5,897,320.38)	(1,353,804,197.59)
Electric - ARO Steam	(2,049,614.55)	(104,062.99)	-	-	-	-	-	-	(2,153,677.54)
Electric - ARO Hydro	(15,828.80)	(824.40)	-	-	-	-	-	-	(16,653.20)
Electric - ARO Other Production	(108,105.20)	(5,606.04)	-	-	-	-	-	-	(113,711.24)
Electric - ARO Transmission	(2,165.47)	(112.47)	-	-	-	-	-	-	(2,277.94)
Electric - ARO Distribution	(12,001.89)	(243.76)	-	-	-	-	-	-	(12,245.65)
Gas	(148,577,916.87)	(6,851,826.61)	1,697,630.07	-	-	-	-	-	(153,732,113.41)
Gas - ARO Underground Storage	(392,040.25)	(6,055.52)	-	-	-	-	-	-	(398,095.77)
Gas - ARO Distribution	(19,101.73)	(56.62)	-	-	-	-	-	-	(19,158.35)
Common - ARO	(1,130.96)	(22.88)	-	-	-	-	-	-	(1,153.84)
Common	(62,084,425.21)	(5,019,259.53)	1,629,371.74	-	-	-	-	-	(65,474,313.00)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(67,943,885.19)	10,935,220.76	-	-	-	-	(5,897,320.38)	(1,575,727,597.53)
Salvage Reserves									
Steam Production	(46,966,253.01)	(3,829,569.36)	-	-	-	794,525.52	(269,883.65)	-	(50,271,180.50)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	2,644.83	-	-	(2,090,919.89)
Transmission	(16,367,877.32)	(725,614.56)	-	-	-	428,864.90	-	-	(16,664,626.98)
Distribution	(132,166,536.49)	(4,042,270.89)	-	-	-	1,953,343.97	(57,261.41)	-	(134,312,724.82)
Distribution General	89,695.45	15,134.24	-	-	-	487.32	-	-	105,317.01
Gas Stored Underground	249,305.84	(150,757.01)	-	-	-	18,102.09	-	-	116,650.92
Gas Transmission	(2,644,672.08)	(69,300.13)	-	-	-	-	-	-	(2,713,972.21)
Gas Distribution	(47,306,815.37)	(2,838,876.20)	-	-	-	84,382.30	(4,580.74)	-	(50,065,890.01)
Gas General	148,519.46	27,864.78	-	-	-	-	-	-	176,384.24
Common	(354,458.62)	(38,715.34)	-	-	-	180,103.63	-	-	(213,070.33)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(11,652,104.47)	-	-	-	3,462,454.56	(331,725.80)	-	(256,456,745.71)
Total Reserves									
Electric	(1,499,774,246.93)	(64,648,984.60)	7,608,218.95	-	-	3,179,866.54	(327,145.06)	(5,897,320.38)	(1,559,859,611.48)
Gas	(198,542,721.00)	(9,889,007.31)	1,697,630.07	-	-	102,484.39	(4,580.74)	-	(206,636,194.59)
Common	(62,440,014.79)	(5,057,997.75)	1,629,371.74	-	-	180,103.63	-	-	(65,688,537.17)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(79,595,989.66)	10,935,220.76	-	-	3,462,454.56	(331,725.80)	(5,897,320.38)	(1,832,184,343.24)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(972,202.81)	(6,512.29)	497.82	37,152.02	1,632,824.94
Gas	(465,950.02)	-	-	620,863.56	(42,658.23)	17,914.15	-	-	130,169.46
Common	(502,243.45)	-	-	567,920.37	(20,862.21)	(64,549.29)	-	-	(19,734.58)
Total 108001 RWIP	2,800,302.69	-	-	(5,822.03)	(1,035,723.25)	(53,147.43)	497.82	37,152.02	1,743,259.82
108901									
Electric	8,273,600.70	-	-	6,244,184.17	4,016,801.71	(5,771,678.10)	(249,171.40)	(1,936,767.95)	10,576,969.13
Gas	3,107,219.25	-	-	198,479.08	(55,245.42)	431,628.16	-	-	3,682,081.07
Common	(4,637,184.09)	-	-	(5,698,720.60)	(159,241.42)	10,704,382.57	2,800.00	-	212,036.46
Total 108901 RWIP	6,743,635.86	-	-	743,942.65	3,802,314.87	5,364,332.63	(246,371.40)	(1,936,767.95)	14,471,086.66
Total RWIP	9,543,938.55	-	-	738,120.62	2,766,591.62	5,311,185.20	(245,873.58)	(1,899,615.93)	16,214,346.48
YTD Activity	(1,751,213,044.17)	(79,595,989.66)	10,935,220.76	738,120.62	2,766,591.62	8,773,639.76	(577,599.38)	(7,796,936.31)	(1,815,969,996.76)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(4,277,505.10)	-	-	-	-	-	-	(19,654,162.94)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(4,277,505.10)	-	-	-	-	-	-	(19,655,062.94)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(83,873,494.76)	10,935,220.76	738,120.62	2,766,591.62	8,773,639.76	(577,599.38)	(7,796,936.31)	(1,835,625,059.70)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,392,793,015.14

LG&E Monthly Report to KPSC – July 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

July 31, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	88,563,694.10	96,398,464.83	(7,834,770.73)	(8.13)
Gas Operating Revenues	12,256,743.06	11,214,100.19	1,042,642.87	9.30
Total Operating Revenues	100,820,437.16	107,612,565.02	(6,792,127.86)	(6.31)
Fuel for Electric Generation	27,742,997.51	31,086,905.84	(3,343,908.33)	(10.76)
Power Purchased	6,813,024.03	9,927,007.14	(3,113,983.11)	(31.37)
Gas Supply Expenses	8,184,175.18	6,609,095.23	1,575,079.95	23.83
Other Operation Expenses	13,827,526.36	10,557,923.97	3,269,602.39	30.97
Maintenance	5,543,208.01	5,409,716.62	133,491.39	2.47
Depreciation	9,889,788.36	9,680,999.25	208,789.11	2.16
Amortization Expense	564,386.74	502,824.89	61,561.85	12.24
Regulatory Credits	(163,026.95)	(152,401.35)	(10,625.60)	6.97
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	7,551,742.82	9,422,932.31	(1,871,189.49)	(19.86)
State Income - Estimated	1,438,427.20	2,093,984.96	(655,557.76)	(31.31)
Property and Other	2,110,419.57	1,852,463.95	257,955.62	13.93
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(329,242.00)	(335,139.00)	5,897.00	(1.76)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.90	10,570.23	7.67
Total Operating Expenses	83,321,767.96	86,794,084.71	(3,472,316.75)	(4.00)
Net Operating Income	17,498,669.20	20,818,480.31	(3,319,811.11)	(15.95)
Other Income Less Deductions	219,117.31	(1,805,046.83)	2,024,164.14	(112.14)
Income Before Interest Charges	17,717,786.51	19,013,433.48	(1,295,646.97)	(6.81)
Interest on Long Term Debt	3,727,513.14	2,938,034.97	789,478.17	26.87
Amortization of Debt Expense - Net	119,475.00	119,190.03	284.97	0.24
Other Interest Expenses	469,372.76	68,435.96	400,936.80	585.86
Total Interest Charges	4,316,360.90	3,125,660.96	1,190,699.94	38.09
Net Inc Before Cumulative Effect of Acctg Chg	13,401,425.61	15,887,772.52	(2,486,346.91)	(15.65)
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	13,401,425.61	15,887,772.52	(2,486,346.91)	(15.65)
Preferred Dividend Requirements	-	330,864.67	(330,864.67)	(100.00)
Earnings Available for Common	13,401,425.61	15,556,907.85	(2,155,482.24)	(13.86)

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	537,166,263.99	532,068,386.20	5,097,877.79	0.96
Gas Operating Revenues	215,254,509.21	265,031,677.10	(49,777,167.89)	(18.78)
Total Operating Revenues	752,420,773.20	797,100,063.30	(44,679,290.10)	(5.61)
Fuel for Electric Generation	183,224,912.94	164,810,629.10	18,414,283.84	11.17
Power Purchased	49,071,505.78	64,293,271.65	(15,221,765.87)	(23.68)
Gas Supply Expenses	156,521,049.51	206,458,248.93	(49,937,199.42)	(24.19)
Other Operation Expenses	99,083,932.72	105,977,775.45	(6,893,842.73)	(6.51)
Maintenance	43,995,048.13	44,420,815.70	(425,767.57)	(0.96)
Depreciation	69,265,506.86	68,275,670.92	989,835.94	1.45
Amortization Expense	3,758,228.21	3,320,620.73	437,607.48	13.18
Regulatory Credits	(1,125,609.29)	(1,065,985.54)	(59,623.75)	5.59
Taxes				
Federal Income	20,428,612.85	34,272,918.67	(13,844,305.82)	(40.39)
State Income	3,935,925.72	6,596,009.84	(2,660,084.12)	(40.33)
Deferred Federal Income - Net	79,931.15	(10,285,600.74)	10,365,531.89	(100.78)
Deferred State Income - Net	239,921.96	(2,274,282.33)	2,514,204.29	(110.55)
Federal Income - Estimated	7,551,742.82	9,422,932.31	(1,871,189.49)	(19.86)
State Income - Estimated	1,438,427.20	2,093,984.96	(655,557.76)	(31.31)
Property and Other	13,862,842.98	12,493,049.96	1,369,793.02	10.96
Investment Tax Credit	5,200,000.00	-	5,200,000.00	100.00
Amortization of Investment Tax Credit	(2,317,316.72)	(2,368,725.79)	51,409.07	(2.17)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	1,039,211.71	963,572.34	75,639.37	7.85
Total Operating Expenses	654,700,781.84	706,400,300.09	(51,699,518.25)	(7.32)
Net Operating Income	97,719,991.36	90,699,763.21	7,020,228.15	7.74
Other Income Less Deductions	(514,641.82)	(1,829,465.41)	1,314,823.59	(71.87)
Income Before Interest Charges	97,205,349.54	88,870,297.80	8,335,051.74	9.38
Interest on Long Term Debt	25,826,580.75	19,680,699.29	6,145,881.46	31.23
Amortization of Debt Expense - Net	834,167.81	834,330.21	(162.40)	(0.02)
Other Interest Expenses	1,492,793.05	2,442,694.16	(949,901.11)	(38.89)
Total Interest Charges	28,153,541.61	22,957,723.66	5,195,817.95	22.63
Net Inc Before Cumulative Effect of Acctg Chg	69,051,807.93	65,912,574.14	3,139,233.79	4.76
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	69,051,807.93	65,912,574.14	3,139,233.79	4.76
Preferred Dividend Requirements	941,636.24	2,137,297.06	(1,195,660.82)	(55.94)
Earnings Available for Common	68,110,171.69	63,775,277.08	4,334,894.61	6.80

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	947,758,406.35	975,917,952.48	(28,159,546.13)	(2.89)
Gas Operating Revenues	345,452,410.77	465,084,486.72	(119,632,075.95)	(25.72)
Total Operating Revenues	1,293,210,817.12	1,441,002,439.20	(147,791,622.08)	(10.26)
Fuel for Electric Generation	310,985,128.07	295,070,740.06	15,914,388.01	5.39
Power Purchased	98,611,858.74	126,775,072.87	(28,163,214.13)	(22.22)
Gas Supply Expenses	245,346,262.34	367,388,177.71	(122,041,915.37)	(33.22)
Other Operation Expenses	182,947,621.62	221,934,984.65	(38,987,363.03)	(17.57)
Maintenance	78,609,886.18	69,745,490.59	8,864,395.59	12.71
Depreciation	118,972,106.20	117,821,596.17	1,150,510.03	0.98
Amortization Expense	6,304,963.00	5,810,690.19	494,272.81	8.51
Regulatory Credits	(2,320,560.26)	(13,689,069.99)	11,368,509.73	(83.05)
Taxes				
Federal Income	48,810,487.74	74,302,244.01	(25,491,756.27)	(34.31)
State Income	8,701,301.08	9,560,366.76	(859,065.68)	(8.99)
Deferred Federal Income - Net	3,340,770.69	(15,490,636.70)	18,831,407.39	(121.57)
Deferred State Income - Net	1,301,080.79	(2,873,945.42)	4,175,026.21	(145.27)
Federal Income - Estimated	(1,871,189.49)	1,653,231.16	(3,524,420.65)	(213.18)
State Income - Estimated	(655,557.76)	70,060.85	(725,618.61)	(1,035.70)
Property and Other	23,078,484.32	20,276,361.28	2,802,123.04	13.82
Investment Tax Credit	8,200,000.00	-	8,200,000.00	100.00
Amortization of Investment Tax Credit	(3,970,252.37)	(4,061,934.57)	91,682.20	(2.26)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,133,680.96	1,255,637.34	878,043.62	69.93
Total Operating Expenses	1,127,972,979.16	1,274,544,460.89	(146,571,481.73)	(11.50)
Net Operating Income	165,237,837.96	166,457,978.31	(1,220,140.35)	(0.73)
Other Income Less Deductions	592,534.79	(1,152,894.54)	1,745,429.33	(151.40)
Income Before Interest Charges	165,830,372.75	165,305,083.77	525,288.98	0.32
Interest on Long Term Debt	40,270,584.59	32,890,545.07	7,380,039.52	22.44
Amortization of Debt Expense - Net	1,430,117.96	1,429,532.11	585.85	0.04
Other Interest Expenses	4,161,840.41	4,861,015.83	(699,175.42)	(14.38)
Total Interest Charges	45,862,542.96	39,181,093.01	6,681,449.95	17.05
Net Inc Before Cumulative Effect of Acctg Chg	119,967,829.79	126,123,990.76	(6,156,160.97)	(4.88)
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	119,967,829.79	118,702,419.26	1,265,410.53	1.07
Preferred Dividend Requirements	2,509,703.85	3,460,366.24	(950,662.39)	(27.47)
Earnings Available for Common	117,458,125.94	115,242,053.02	2,216,072.92	1.92

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
JULY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	625,284,403.30	609,199,867.67	639,104,729.77	620,981,498.44	624,756,775.52	569,514,722.50
Add:						
Credits from Income	13,401,425.61	15,887,772.52	69,051,807.93	65,912,574.14	119,967,829.79	118,702,419.26
FIN 48 Adjustment	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			746,782.16	537,682.38	764,703.85	1,075,366.24
Without Par Value						
Auction Rate			624,999.99	1,268,750.01	1,745,000.00	2,385,000.00
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,614.67	(430,145.91)	89,614.67		
Without Par Value						
Auction Rate	-	241,250.00		241,250.00		
Common Dividends						
Common Stock Without Par Value	-	-	65,000,000.00	60,000,000.00	100,000,000.00	60,000,000.00
Balance at End of Period	638,685,828.91	624,756,775.52	638,685,828.91	624,756,775.52	638,685,828.91	624,756,775.52

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF JULY 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,209,174,420.04	4,083,194,981.05
Less Reserves for Depreciation & Amortization	1,826,351,513.43	1,757,278,109.70
Total	2,382,822,906.61	2,325,916,871.35
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	255,143.37
Special Funds	19,313,753.15	273,273.92
Other	-	-
Total	19,919,918.35	1,122,703.29
Current and Accrued Assets		
Cash	4,584,798.69	8,669,672.50
Special Deposits	974,186.65	7,065,749.73
Temporary Cash Investments	35,201.68	2,788.88
Accounts Receivable-Less Reserve	135,402,017.23	131,858,381.21
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	40,234,999.26	23,663,311.04
Materials & Supplies-At Average Cost		
Fuel	38,831,638.23	44,713,050.24
Plant Materials & Operating Supplies	25,801,503.61	24,705,891.57
Stores Expense	4,626,793.25	4,350,418.57
Gas Stored Underground	49,279,157.89	48,693,125.27
Allowance Inventory	13,059.58	18,000.42
Prepayments	3,908,903.79	3,795,284.20
Miscellaneous Current & Accrued Assets	405,872.28	514,883.29
Total	304,098,132.14	298,050,556.92
Deferred Debits and Other		
Unamortized Debt Expense	9,652,780.77	8,302,314.84
Unamortized Loss on Bonds	19,505,157.30	20,048,953.03
Accumulated Deferred Income Taxes	51,887,076.57	87,007,018.29
Deferred Regulatory Assets	165,715,341.86	21,991,790.86
Other Deferred Debits	40,215,104.00	68,906,217.92
Total	286,975,460.50	206,256,294.94
Total Assets and Other Debits	2,993,816,417.60	2,831,346,426.50

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(5,308,978.00)	(52,019,692.19)
Retained Earnings	638,685,828.91	624,756,775.52
Total Common Equity	1,097,711,386.36	1,037,071,618.78
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	18,750,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,035,015,386.36	1,925,550,212.83
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	101,592,000.00	-
Notes Payable to Associated Companies	-	13,314,000.00
Notes Payable	-	-
Accounts Payable	75,875,938.81	79,815,835.03
Accounts Payable to Associated Companies	54,007,480.79	31,388,369.20
Customer Deposits	18,648,232.30	17,768,121.75
Taxes Accrued	14,838,261.54	29,463,176.63
Interest Accrued	8,638,431.27	7,128,025.13
Dividends Declared	-	330,863.23
ST Obligations Under Capital Leases	485,798.37	-
Misc. Current & Accrued Liabilities	10,930,122.62	7,862,527.87
Total	285,016,265.70	188,320,918.84
Deferred Credits and Other		
LT Obligations Under Capital Leases	134,949.00	-
Accumulated Deferred Income Taxes	390,284,623.75	398,281,949.94
Investment Tax Credit	43,952,920.42	39,723,172.79
Regulatory Liabilities	54,521,254.97	43,831,772.21
Customer Advances for Construction	21,186,602.96	9,803,701.74
Asset Retirement Obligations	29,090,902.14	27,363,090.89
Other Deferred Credits	34,188,420.95	67,873,472.34
Misc. Long-Term Liabilities	6,824,538.04	68,965,853.40
Accum Provision for Post-Retirement Benefits	93,600,553.31	61,632,281.52
Total	673,784,765.54	717,475,294.83
Total Liabilities and Other Credits	2,993,816,417.60	2,831,346,426.50

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JULY 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(5,308,978.00)		
Retained Earnings			638,685,828.91		
Total Common Equity			1,097,711,386.36	51.38	53.94
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total Pollution Control Bonds			574,304,000.00	26.88	28.22
LT Notes Payable to Associated Companies			363,000,000.00	16.99	17.84
Total Capitalization			2,035,015,386.36	95.25	100.00
ST Notes Payable to Associated Companies			101,592,000.00	4.75	
Total Capitalization and Short-Term Debt			2,136,607,386.36	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,209,174,420 04	4,209,174,420 04
Reserves for Depreciation and Amortization		(1,826,351,513.43)
Electric	(1,540,391,851 29)	
Gas	(201,735,951 98)	
Common	(65,087,924 11)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(19,134,886 05)	
INVESTMENTS - AT COST		19,919,918 35
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	19,313,753 15	
CASH		4,584,798 69
JP Morgan Chase	3,260,739 57	
BB&T	11,695 39	
Town and Country Bank	22,617 97	
US Bank	1,202,586 91	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	77,058 85	
OTHER SPECIAL DEPOSITS		974,186.65
MAN Margin Call	974,186 65	
TEMPORARY CASH INVESTMENTS		35,201 68
Other	35,201 68	
ACCOUNTS RECEIVABLE - LESS RESERVE		135,402,017 23
Working Funds	21,280 00	
Customers-Active	75,742,180 10	
Wholesale Sales	5,439,640 78	
Transmission Sales	216,090 53	
Unbilled Revenues	41,520,000 00	
Employee Computer Loans	104,566 18	
Damage Claims	585,215 25	
Tax Refunds	3,040,438 57	
IMEA	3,224,198 52	
IMPA	3,373,641 56	
Other	3,280,789 14	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(969,853.00)	
Accrual	(1,058,783 75)	
Charged Off	2,490,044 33	
Recoveries	(1,431,260 58)	
A/R Miscellaneous	(589,623 00)	
Interest and Dividends Receivable	1,651 76	
Rents Receivable	411,800 84	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		40,234,999 26
E.ON US Services/Kentucky Utilities	40,234,999 26	
FUEL		38,831,638 23
Coal 1,092,219.78 Tons @ \$36 10; MMBTU 25,288,027 91 @ 155.92¢	39,428,243.08	
Fuel Oil 189,227 Gallons @ 158 76¢	300,416.29	
Gas Pipeline (76,943 00) MCF @ (\$11 66)	(897,021 14)	
PLANT MATERIALS AND OPERATING SUPPLIES		25,801,503 61
Regular Materials and Supplies	25,577,813 76	
Limestone 33,238 91 Tons @ \$6 73	223,689 85	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,626,793 25
Stores Expense Undistributed	4,626,793 25	
GAS STORED UNDERGROUND - CURRENT		49,279,157 89
Gas St Underground*6,550,310 MCF (14 73 psia) @ $7 52	49.279,157 89	
ALLOWANCE INVENTORY		13,059.58
Allowance Inventory	13,059 58	
PREPAYMENTS		3,908.903 79
Insurance	1,200,702 19	
Franchises	105,061 56	
Taxes	1.777,772 21	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	32,025 44	
Other	423,342 36	
MISCELLANEOUS CURRENT ASSETS		405,872 28
Miscellaneous Current Assets	3,834 01	
Derivative Asset - Non-Hedging	402,038 27	
UNAMORTIZED DEBT EXPENSE		9,652,780 77
Pollution Control Series Y due May 1, 2027	471,970.49	
Pollution Control Series Z due Aug. 1, 2030	880,380 99	
Pollution Control Series AA due Sept 1, 2027	398,433 00	
Pollution Control Series BB due Sept 1, 2026	188,397.36	
Pollution Control Series CC due Sept. 1, 2026	204,924.23	
Pollution Control Series DD due Nov 1, 2027	221,667 02	
Pollution Control Series EE due Nov 1. 2027	221,700 67	
Pollution Control Series FF due Oct. 1, 2032	927,028 48	
Pollution Control Series GG due Oct. 1, 2033	3,073,806 73	
Pollution Control Series HH due Feb 1, 2035	1,007,258.40	
Pollution Control Bonds due Jun 1, 2033	521,931 77	
Pollution Control Bonds due Jun 1, 2033	480,956 67	
Pollution Control Bonds due Jun 1, 2033	1,054,324 96	
UNAMORTIZED LOSS ON BONDS		19,505,157 30
Refinanced and Called Bonds	19,505,157 30	
OTHER DEFERRED DEBITS	40,215,104 00	40,215,104 00
DEFERRED REGULATORY ASSET		165,715,341 86
Asset Retirement Obligations		
Electric	18,323,243.34	
Gas	5,019,493 71	
Common	22,528 34	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	2,922,589 07	
MISO Exit Fee	13,139,016.40	
ACCUMULATED DEFERRED INCOME TAXES		51.887,076 57
Federal		
Electric	37,362,120 77	
Gas	6,528,973 98	
State		
Electric	7,108,685 25	
Gas	887,296 57	

*Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845 00	10,810,000

Total Assets and Other Debits	2,993,816,417.60	2,993,816,417.60

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,097,711,386.36
Common Stock	425,170,424.09	
Retained Earnings	638,685,828.91	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(5,308,978.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000.00	363,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		101,592,000.00
Money Pool Payable	101,592,000.00	
ACCOUNTS PAYABLE		75,875,938.81
Regular	71,332,943.56	
Salaries and Wages Accrued	3,040,199.42	
Nonqualified Savings Plan	353,869.81	
Tax Collections - Payable	1,148,926.02	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		54,007,480.79
E.ON US Services/Kentucky Utilities	54,007,480.79	
CUSTOMERS' DEPOSITS	18,648,232.30	18,648,232.30
Customers' Deposits		
TAXES ACCRUED	14,838,261.54	14,838,261.54
Taxes Accrued		
INTEREST ACCRUED		8,638,431.27
Loan Agreement - Pol. Cont. Bonds 2000 Series A	15,416.67	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	240,629.83	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	1,052.50	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	208,602.75	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	254,958.91	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	181,232.87	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	181,233.17	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	(31,163.14)	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	88,355.55	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	7,888.89	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	15,284.74	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	17,355.59	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	475,333.31	
Interest Rate Swaps	116,317.49	
Fidelia	6,112,270.00	
Customers' Deposits	753,662.14	
ST OBLIGATIONS UNDER CAPITAL LEASES	485,798.37	485,798.37
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,930,122.62
Customer Overpayments	2,558,201.70	
UK Emission Research Grant	500,000.00	
Vacation Pay Accrued	4,799,673.82	
Derivative Liabilities - Non-Hedging	409,262.92	
Postretirement Benefits - Current	2,248,334.00	
Other	414,650.18	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	134,949 00	134,949 00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		21,186,602 96
Line Extensions		
Electric	799,072.49	
Gas	7,647,526.90	
Customer Advances - Arena	12,470,003 57	
Other	270,000.00	
ASSET RETIREMENT OBLIGATIONS		29,090,902.14
Electric	21,466,407 99	
Gas	7,599,381.63	
Common	25,112 52	
OTHER DEFERRED CREDITS	34,188,420.95	34,188,420.95
REGULATORY LIABILITIES		54,521,254.97
Asset Retirement Obligations		
Electric	214,869 68	
Gas	87,241 54	
Deferred Taxes		
Federal		
Electric	27,846,617 75	
Gas	1,650,050 50	
State		
Electric	18,994,203 00	
Gas	2,664,816.50	
MISO Schedule 10 Charges	3,063,456 00	
INVESTMENT TAX CREDIT		43,952,920 42
Investment Tax Credit (prior law)		
Electric	(44 00)	
Job Development Credit		
Electric	34,538,006.37	
Gas	1,214,958 05	
Advanced Coal Credit	8,200,000 00	
ACCUMULATED DEFERRED INCOME TAXES		390,284,623.75
Federal		
Electric	291,105,595 19	
Gas	42,768,800.77	
Common	(54,580.00)	
State		
Electric	49,783,036 46	
Gas	6,683,188 33	
Common	(1,417.00)	
MISCELLANEOUS LONG-TERM LIABILITIES		6,824,538 04
Pension Payable	(3,967,637 00)	
Workers' Compensation	6,098,714 04	
Post Employment Benefits	3,620,043 00	
Uncertain Tax Positions	1,073,418 00	
ACCUMULATED PROVISION FOR BENEFITS		93,600,553.31
Postretirement Benefits	93,600,553 31	
Total Liabilities and Other Credits	2,993,816,417.60	2,993,816,417.60

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
JULY 31, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	69,051,807.93	65,912,574.14
Items not requiring (providing) cash currently:		
Depreciation	69,265,506.86	68,275,670.92
Amortization	3,758,228.21	3,320,620.73
Deferred income taxes - net	5,799,053.11	(10,427,466.07)
Investment tax credit - net	2,882,683.28	(2,368,725.79)
Other	1,428,417.38	3,212,215.87
Change in receivables	8,924,485.05	112,047,440.49
Change in inventory	31,856,765.95	68,788,350.74
Change in allowance inventory	2,343.42	3,442.34
Change in payables and accrued expenses	(78,580,121.80)	(74,554,018.17)
Change in other regulatory assets	(2,095,638.32)	5,527,704.62
Change in other regulatory liabilities	(849,315.89)	1,938,354.11
Change in other deferred debits	(4,530,306.96)	(3,321,285.18)
Change in other deferred credits	(17,089,614.34)	26,239,277.12
Other	3,615,007.00	(1,104,584.04)
Net cash provided (used) by operating activities	93,439,300.88	263,489,571.83
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(102,683,789.11)	(72,467,673.80)
Change in long-term investments	5,458.27	(392,122.86)
Change in restricted cash	(4,682,091.89)	2,752,098.41
Net cash provided (used) by investing activities	(107,360,422.73)	(70,107,698.25)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	261,763,212.35	(1,821.17)
Net increase in short-term debt	33,768,000.00	-
Net increase in short-term capital lease obligations	485,798.37	-
Net increase in long-term capital lease obligations	134,949.00	-
Payments for retirement of long-term debt	(126,000,000.00)	-
Payments for retirement of preferred stock	(91,643,112.60)	(1,250,000.00)
Net decrease in short-term debt	-	(127,931,000.00)
Dividends on preferred stock	(4,416,711.93)	(2,625,273.51)
Dividends on common stock	(65,000,000.00)	(60,000,000.00)
Net cash provided (used) by financing activities	9,092,135.19	(191,808,094.68)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,828,986.66)	1,573,778.90
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,620,000.37	8,672,461.38

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
JULY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	97,156.17	350,482.41	615,813.40	828,166.81	985,199.38
1992 Series A Variable TC	-	183,452.06	670,142.71	1,179,764.34	1,575,222.15	1,883,621.89
1993 Series A Variable Rate	-	110,614.80	392,885.10	694,144.03	926,459.22	1,100,573.85
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	80,520.84	79,687.50	539,583.33	494,250.05	916,284.73	775,763.94
2000 Series A Variable TC	275,815.70	254,750.46	1,807,906.53	1,630,787.25	3,173,248.44	2,667,844.79
2001 Series A Variable Rate	32,781.87	30,859.30	221,765.99	198,347.14	380,533.48	316,387.13
2001 Series A Variable Rate	71,852.06	70,224.66	480,242.50	446,054.80	818,987.71	706,464.42
2001 Series A Variable Rate TC	87,819.18	85,830.13	586,963.02	545,178.07	1,000,984.95	864,946.59
2001 Series B Variable Rate	112,364.39	110,724.66	747,906.88	704,048.64	1,279,619.21	1,119,103.42
2001 Series B Variable Rate TC	112,364.39	110,724.66	747,907.17	703,730.16	1,279,619.49	1,117,053.42
2002 Series A Variable Rate TC	138,099.51	132,403.39	906,464.89	820,030.01	1,535,069.82	1,301,380.61
2003 Series A Variable Rate	408,355.55	417,941.34	2,740,800.04	2,477,564.45	4,648,000.04	3,888,586.68
2005 Series A Variable Rate	123,944.43	122,055.58	846,116.65	766,249.98	1,431,727.73	1,206,827.71
2007 Series A Variable Rate	96,530.56	-	300,503.69	-	300,503.69	-
2007 Series B Variable Rate	110,498.67	-	348,294.23	-	348,294.23	-
2007 Series A Variable Rate (4.6%)	237,666.68	-	743,666.68	-	743,666.68	-
Interest Rate Swaps	116,317.48	121,818.58	898,983.48	1,299,476.47	1,539,272.38	2,771,973.44
Notes/Debentures	125,840.17	-	3,301,348.17	-	3,301,348.17	-
Fidelia	1,596,741.66	911,875.01	8,848,645.03	6,383,125.07	13,408,020.08	10,942,500.12
$5.875 Mandatory Redeemable Preferred Stock	-	97,916.67	345,972.25	722,135.43	835,555.58	1,242,317.68
Total	3,727,513.14	2,938,034.97	25,826,580.75	19,680,699.29	40,270,584.59	32,890,545.07
Amortization of Debt Expense - Net						
Amortization of Debt Expense	32,852.23	34,054.02	232,268.61	238,378.14	402,538.71	407,859.92
Amort. of Loss on Reacquired Debt	86,622.77	85,136.01	601,899.20	595,952.07	1,027,579.25	1,021,672.19
Total	119,475.00	119,190.03	834,167.81	834,330.21	1,430,117.96	1,429,532.11
Other Interest Charges						
Customers' Deposits	84,268.87	76,843.66	554,304.61	519,399.30	937,385.50	867,715.46
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	902,151.00	383,125.68	902,151.00
Other Tax Deficiencies	-	-	3,058.71	213.87	3,058.71	769,385.87
Gas Refunds	(495.70)	-	2,358.86	-	4,737.66	-
Interest on Debt to Associated Companies	385,599.59	(8,407.70)	1,983,223.62	1,020,929.99	2,824,951.30	2,321,763.50
Other	-	-	8,581.56	-	8,581.56	-
Total	469,372.76	68,435.96	1,492,793.05	2,442,694.16	4,161,840.41	4,861,015.83
Total Interest	4,316,360.90	3,125,660.96	28,153,541.61	22,957,723.66	45,862,542.96	39,181,093.01

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
JULY 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,433,534.59	1,138,722.00	9,076,505.10	8,029,962.88
Unemployment	15,485.30	12,632.06	108,776.79	115,056.29
Federal Old Age and Survivors Insurance	493,551.81	536,901.29	3,549,929.29	3,496,527.35
Public Service Commission Fee	161,615.66	158,705.95	1,113,851.38	987,405.45
Federal Income	7,551,742.82	9,422,932.31	27,980,355.67	43,695,850.98
State Income	1,438,427.20	2,093,984.96	5,374,352.92	8,689,994.80
Miscellaneous	6,232.21	5,502.65	13,780.42	(135,902.01)
Total Charged to Operating Expense	11,100,589.59	13,369,381.22	47,217,551.57	64,878,895.74
Taxes Charged to Other Accounts	185,361.68	122,018.39	476,107.36	1,041,317.07
Taxes Accrued on Intercompany Accounts	(181,699.89)	(167,850.58)	(1,411,572.56)	(1,379,413.65)
Total Taxes Charged	11,104,251.38	13,323,549.03	46,282,086.37	64,540,799.16

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	9,142,301.00	14,000,356.02	9,067,914.22
State Unemployment	18,782.64	28,717.59	37,888.86	9,611.37
Federal Unemployment	29,205.50	29,866.61	53,066.21	6,005.90
Federal Old Age and Survivors	561,717.23	3,072,112.77	3,186,898.10	446,931.90
Federal Income	6,350,985.46	26,893,862.98	35,578,314.20	(2,333,465.76)
State Income	7,726,946.43	5,176,481.94	5,519,810.00	7,383,618.37
Kentucky Sales and Use Tax	10,878.70	1,867,658.09	1,620,891.25	257,645.54
Miscellaneous	0.37	71,085.39	71,085.76	(0.00)
Totals	28,624,485.57	46,282,086.37	60,068,310.40	14,838,261.54

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
JULY 31, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	11,866,876.61	(2,028,694.13)	(863.74)	9,837,318.74	1,955,095,244.07
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	94,679.25	(16,650.00)	-	78,029.25	225,514,812.24
Transmission	240,067,695.28	14,518,254.97	(419,668.20)	(3,177.21)	14,095,409.56	254,163,104.84
Distribution	754,284,748.12	4,948,223.24	(4,282,058.39)	(60,096.92)	606,067.93	754,890,816.05
General	16,886,738.80	71,047.36	(275,858.33)	(36,652.65)	(241,463.62)	16,645,275.18
Total Electric	3,199,821,117.16	31,565,350.62	(7,022,929.05)	(100,797.02)	24,441,624.55	3,224,262,741.71
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	272,556.64	(63,177.02)	-	209,379.62	61,257,669.39
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	1,391,265.80	(63,394.70)	(2,319.15)	1,325,551.95	441,446,341.33
General	10,346,233.87	293,280.81	(1,571,058.35)	(33,407.63)	(1,311,185.17)	9,035,048.70
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	1,964,919.99	(1,697,630.07)	(35,726.78)	231,563.14	526,782,145.00
Common						
Intangible	28,877,505.07	3,034,003.98	-	-	3,034,003.98	31,911,509.05
General	150,813,423.54	4,145,648.11	(1,586,995.32)	-	2,558,652.79	153,372,076.33
Total Common	179,690,928.61	7,179,652.09	(1,586,995.32)	-	5,592,656.77	185,283,585.38
Total Plant in Service	3,906,062,627.63	40,709,922.70	(10,307,554.44)	(136,523.80)	30,265,844.46	3,936,328,472.09
Construction Work In Progress						
Electric	154,377,558.86	40,240,299.01	-	-	40,240,299.01	194,617,857.87
Gas	54,810,960.24	14,069,869.67	-	-	14,069,869.67	68,880,829.91
Common	8,684,890.86	662,369.31	-	-	662,369.31	9,347,260.17
Total Construction Work In Progress	217,873,409.96	54,972,537.99	-	-	54,972,537.99	272,845,947.95
Total Utility Plant at Original Cost	4,123,936,037.59	95,682,460.69	(10,307,554.44)	(136,523.80)	85,238,382.45	4,209,174,420.04

LOUISVILLE GAS AN... ..ECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
JULY 31, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(49,053,445.27)	7,022,929.05	-	-	-	-	(5,892,506.54)	(1,347,482,304.55)
Electric - ARO Steam	(2,049,614.55)	(90,505.96)	-	-	-	-	-	-	(2,140,120.51)
Electric - ARO Hydro	(15,828.80)	(783.18)	-	-	-	-	-	-	(16,611.98)
Electric - ARO Other Production	(108,105.20)	(5,324.58)	-	-	-	-	-	-	(113,429.78)
Electric - ARO Transmission	(2,165.47)	(97.72)	-	-	-	-	-	-	(2,263.19)
Electric - ARO Distribution	(12,001.89)	(213.29)	-	-	-	-	-	-	(12,215.18)
Gas	(148,577,916.87)	(6,022,203.26)	1,697,630.07	-	-	-	-	-	(152,902,490.06)
Gas - ARO Underground Storage	(392,040.25)	(5,298.58)	-	-	-	-	-	-	(397,338.83)
Gas - ARO Distribution	(19,101.73)	(55.53)	-	-	-	-	-	-	(19,157.26)
Common - ARO	(1,130.96)	(20.02)	-	-	-	-	-	-	(1,150.98)
Common	(62,084,425.21)	(4,424,761.59)	1,586,995.32	-	-	-	-	-	(64,922,191.48)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(59,602,708.98)	10,307,554.44	-	-	-	-	(5,892,506.54)	(1,568,009,273.80)
Salvage Reserves									
Steam Production	(46,966,253.01)	(3,345,752.75)	-	-	-	717,550.25	(245,427.65)	-	(49,839,883.16)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	-	-	-	(2,093,564.72)
Transmission	(16,367,877.32)	(632,635.66)	-	-	-	424,226.92	-	-	(16,576,286.06)
Distribution	(132,166,536.49)	(3,537,616.28)	-	-	-	1,822,554.76	(57,261.41)	-	(133,938,859.42)
Distribution General	89,695.45	13,246.67	-	-	-	487.32	-	-	103,429.44
Gas Stored Underground	249,305.84	(131,904.36)	-	-	-	18,102.09	-	-	135,503.57
Gas Transmission	(2,644,672.08)	(60,634.61)	-	-	-	-	-	-	(2,705,306.69)
Gas Distribution	(47,306,815.37)	(2,483,699.44)	-	-	-	84,382.30	(4,580.74)	-	(49,710,713.25)
Gas General	148,519.46	24,258.03	-	-	-	-	-	-	172,777.49
Common	(354,458.62)	(33,421.25)	-	-	-	174,952.75	-	-	(212,927.12)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(10,188,159.65)	-	-	-	3,242,256.39	(307,269.80)	-	(255,188,543.06)
Total Reserves									
Electric	(1,499,774,246.93)	(56,653,128.02)	7,022,929.05	-	-	2,964,819.25	(302,689.06)	(5,892,506.54)	(1,552,634,822.25)
Gas	(198,542,721.00)	(8,679,537.75)	1,697,630.07	-	-	102,484.39	(4,580.74)	-	(205,426,725.03)
Common	(62,440,014.79)	(4,458,202.86)	1,586,995.32	-	-	174,952.75	-	-	(65,136,269.58)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(69,790,868.63)	10,307,554.44	-	-	3,242,256.39	(307,269.80)	(5,892,506.54)	(1,823,197,816.86)
Retirement Work in Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(971,854.83)	(12,044.61)	497.82	37,152.02	1,627,640.60
Gas	(465,950.02)	-	-	620,863.56	(42,658.23)	17,914.15	-	-	130,169.46
Common	(502,243.45)	-	-	567,920.37	(20,862.21)	(60,659.86)	-	-	(15,845.15)
Total 108001 RWIP	2,800,302.69	-	-	(5,822.03)	(1,035,375.27)	(54,790.32)	497.82	37,152.02	1,741,964.91
108901									
Electric	8,273,600.70	-	-	6,244,184.17	4,202,231.18	(6,056,750.84)	(216,789.13)	(1,831,145.72)	10,615,330.36
Gas	3,107,219.25	-	-	198,479.08	(55,245.42)	310,150.68	-	-	3,560,603.59
Common	(4,637,184.09)	-	-	(5,698,720.60)	(154,090.54)	10,551,385.85	2,800.00	-	64,190.62
Total *108901 RWIP*	6,743,635.86	-	-	743,942.65	3,992,895.22	4,804,785.69	(213,989.13)	(1,831,145.72)	14,240,124.57
Total RWIP	9,543,938.55	-	-	738,120.62	2,957,519.95	4,749,995.37	(213,491.31)	(1,793,993.70)	15,982,089.48
YTD Activity	(1,751,213,044.17)	(69,790,868.63)	10,307,554.44	738,120.62	2,957,519.95	7,992,251.76	(520,761.11)	(7,686,500.24)	(1,807,215,727.38)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(3,758,228.21)	-	-	-	-	-	-	(19,134,886.05)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(3,758,228.21)	-	-	-	-	-	-	(19,135,786.05)
Total Reserve For Depreciation and Amortization - Utility Plant in Service	(1,766,590,602.01)	(73,549,096.84)	10,307,554.44	738,120.62	2,957,519.95	7,992,251.76	(520,761.11)	(7,686,500.24)	(1,826,351,513.43)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,382,822,906.61

LG&E Monthly Report to KPSC – June 30, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

June 30, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	86,428,172.74	85,946,450.83	481,721.91	0.56
Gas Operating Revenues	12,376,676.86	11,712,102.37	664,574.49	5.67
Total Operating Revenues	98,804,849.60	97,658,553.20	1,146,296.40	1.17
Fuel for Electric Generation	27,674,757.78	25,575,838.99	2,098,918.79	8.21
Power Purchased	6,094,884.34	8,350,910.35	(2,256,026.01)	(27.02)
Gas Supply Expenses	8,281,181.92	6,018,289.83	2,262,892.09	37.60
Other Operation Expenses	10,128,329.88	17,163,303.50	(7,034,973.62)	(40.99)
Maintenance	6,833,403.23	7,058,084.16	(224,680.93)	(3.18)
Depreciation	10,393,972.68	9,867,691.48	526,281.20	5.33
Amortization Expense	550,307.64	508,409.17	41,898.47	8.24
Regulatory Credits	(163,026.95)	(152,401.35)	(10,625.60)	6.97
Taxes				
Federal Income	9,520,109.72	11,095,894.70	(1,575,784.98)	(14.20)
State Income	1,818,526.08	4,475,130.36	(2,656,604.28)	(59.36)
Deferred Federal Income - Net	(966,637.44)	547,313.85	(1,513,951.29)	(276.61)
Deferred State Income - Net	(49,201.52)	(2,393,290.79)	2,344,089.27	(97.94)
Federal Income - Estimated	(6,033,880.58)	(6,887,360.36)	853,479.78	(12.39)
State Income - Estimated	(1,250,350.69)	(1,530,524.53)	280,173.84	(18.31)
Property and Other	2,084,084.64	1,424,653.88	659,430.76	46.29
Investment Tax Credit	2,600,000.00	-	2,600,000.00	100.00
Amortization of Investment Tax Credit	(335,553.32)	(346,515.36)	10,962.04	(3.16)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,770.90	10,570.23	7.67
Total Operating Expenses	77,329,248.54	80,913,198.78	(3,583,950.24)	(4.43)
Net Operating Income	21,475,601.06	16,745,354.42	4,730,246.64	28.25
Other Income Less Deductions	(156,727.69)	(3,397.35)	(153,330.34)	4,513.23
Income Before Interest Charges	21,318,873.37	16,741,957.07	4,576,916.30	27.34
Interest on Long Term Debt	6,290,148.48	2,856,519.49	3,433,628.99	120.20
Amortization of Debt Expense - Net	119,359.67	119,190.03	169.64	0.14
Other Interest Expenses	416,991.16	39,331.63	377,659.53	960.19
Total Interest Charges	6,826,499.31	3,015,041.15	3,811,458.16	126.41
Net Inc Before Cumulative Effect of Acctg Chg	14,492,374.06	13,726,915.92	765,458.14	5.58
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	14,492,374.06	13,726,915.92	765,458.14	5.58
Preferred Dividend Requirements	-	312,529.89	(312,529.89)	(100.00)
Earnings Available for Common	14,492,374.06	13,414,386.03	1,077,988.03	8.04

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	448,602,569.89	435,669,921.37	12,932,648.52	2.97
Gas Operating Revenues	202,997,766.15	253,817,576.91	(50,819,810.76)	(20.02)
Total Operating Revenues	651,600,336.04	689,487,498.28	(37,887,162.24)	(5.50)
Fuel for Electric Generation	155,481,915.43	133,723,723.26	21,758,192.17	16.27
Power Purchased	42,258,481.75	54,366,264.51	(12,107,782.76)	(22.27)
Gas Supply Expenses	148,336,874.33	199,849,153.70	(51,512,279.37)	(25.78)
Other Operation Expenses	85,256,406.36	95,419,851.48	(10,163,445.12)	(10.65)
Maintenance	38,451,840.12	39,011,099.08	(559,258.96)	(1.43)
Depreciation	59,375,718.50	58,594,671.67	781,046.83	1.33
Amortization Expense	3,193,841.47	2,817,795.84	376,045.63	13.35
Regulatory Credits	(962,582.34)	(913,584.19)	(48,998.15)	5.36
Taxes				
Federal Income	20,428,612.85	34,272,918.67	(13,844,305.82)	(40.39)
State Income	3,935,925.72	6,596,009.84	(2,660,084.12)	(40.33)
Deferred Federal Income - Net	79,931.15	(10,285,600.74)	10,365,531.89	(100.78)
Deferred State Income - Net	239,921.96	(2,274,282.33)	2,514,204.29	(110.55)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	11,752,423.41	10,640,586.01	1,111,837.40	10.45
Investment Tax Credit	5,200,000.00	-	5,200,000.00	100.00
Amortization of Investment Tax Credit	(1,988,074.72)	(2,033,586.79)	45,512.07	(2.24)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	890,870.58	825,801.44	65,069.14	7.88
Total Operating Expenses	571,379,013.88	619,606,215.38	(48,227,201.50)	(7.78)
Net Operating Income	80,221,322.16	69,881,282.90	10,340,039.26	14.80
Other Income Less Deductions	(733,759.13)	(24,418.58)	(709,340.55)	2,904.92
Income Before Interest Charges	79,487,563.03	69,856,864.32	9,630,698.71	13.79
Interest on Long Term Debt	22,099,067.61	16,742,664.32	5,356,403.29	31.99
Amortization of Debt Expense - Net	714,692.81	715,140.18	(447.37)	(0.06)
Other Interest Expenses	1,023,420.29	2,374,258.20	(1,350,837.91)	(56.90)
Total Interest Charges	23,837,180.71	19,832,062.70	4,005,118.01	20.20
Net Inc Before Cumulative Effect of Acctg Chg	55,650,382.32	50,024,801.62	5,625,580.70	11.25
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	55,650,382.32	50,024,801.62	5,625,580.70	11.25
Preferred Dividend Requirements	941,636.24	1,806,432.39	(864,796.15)	(47.87)
Earnings Available for Common	54,708,746.08	48,218,369.23	6,490,376.85	13.46

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	955,593,177.08	965,889,066.07	(10,295,888.99)	(1.07)
Gas Operating Revenues	344,409,767.90	465,584,513.51	(121,174,745.61)	(26.03)
Total Operating Revenues	1,300,002,944.98	1,431,473,579.58	(131,470,634.60)	(9.18)
Fuel for Electric Generation	314,329,036.40	286,872,149.50	27,456,886.90	9.57
Power Purchased	101,725,841.85	127,718,579.96	(25,992,738.11)	(20.35)
Gas Supply Expenses	243,771,182.39	367,908,872.19	(124,137,689.80)	(33.74)
Other Operation Expenses	179,678,019.23	225,325,875.73	(45,647,856.50)	(20.26)
Maintenance	78,476,394.79	69,031,707.33	9,444,687.46	13.68
Depreciation	118,763,317.09	117,845,460.71	917,856.38	0.78
Amortization Expense	6,243,401.15	5,825,285.42	418,115.73	7.18
Regulatory Credits	(2,309,934.66)	(13,605,844.23)	11,295,909.57	(83.02)
Taxes				
Federal Income	48,810,487.74	74,302,244.01	(25,491,756.27)	(34.31)
State Income	8,701,301.08	9,560,366.76	(859,065.68)	(8.99)
Deferred Federal Income - Net	3,340,770.69	(15,490,636.70)	18,831,407.39	(121.57)
Deferred State Income - Net	1,301,080.79	(2,873,945.42)	4,175,026.21	(145.27)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	22,820,528.70	20,145,292.45	2,675,236.25	13.28
Investment Tax Credit	8,200,000.00	-	8,200,000.00	100.00
Amortization of Investment Tax Credit	(3,976,149.37)	(4,067,173.57)	91,024.20	(2.24)
Gain from Disposition of Allowances	*(553,092.69)*	*(1,004,606.07)*	*451,513.38*	*(44.94)*
Accretion Expense	2,123,110.73	1,176,279.44	946,831.29	80.49
Total Operating Expenses	1,131,445,295.91	1,268,669,907.51	(137,224,611.60)	(10.82)
Net Operating Income	168,557,649.07	162,803,672.07	5,753,977.00	3.53
Other Income Less Deductions	(1,431,629.35)	651,383.32	(2,083,012.67)	(319.78)
Income Before Interest Charges	167,126,019.72	163,455,055.39	3,670,964.33	2.25
Interest on Long Term Debt	39,481,106.42	32,564,524.33	6,916,582.09	21.24
Amortization of Debt Expense - Net	1,429,832.99	1,428,820.36	1,012.63	0.07
Other Interest Expenses	3,760,903.61	4,914,029.35	(1,153,125.74)	(23.47)
Total Interest Charges	44,671,843.02	38,907,374.04	5,764,468.98	14.82
Net Inc Before Cumulative Effect of Acctg Chg	122,454,176.70	124,547,681.35	(2,093,504.65)	(1.68)
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	122,454,176.70	117,126,109.85	5,328,066.85	4.55
Preferred Dividend Requirements	2,840,568.52	3,381,614.80	(541,046.28)	(16.00)
Earnings Available for Common	119,613,608.18	113,744,495.05	5,869,113.13	5.16

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
JUNE 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	640,792,029.24	615,785,481.64	639,104,729.77	620,981,498.44	609,199,867.67	555,455,372.62
Add:						
Credits from Income	14,492,374.06	13,726,915.92	55,650,382.32	50,024,801.62	122,454,176.70	117,126,109.85
FIN 48 Adjustment	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			746,782.16	537,682.38	854,318.52	1,075,364.80
Without Par Value						
Auction Rate			624,999.99	1,268,750.01	1,986,250.00	2,306,250.00
Preferred Dividends Accrued						
$25 Par Value						
5% Series	-	89,613.23	(430,145.91)			
Without Par Value						
Auction Rate	-	222,916.66				
Common Dividends						
Common Stock Without Par Value	30,000,000.00	20,000,000.00	65,000,000.00	60,000,000.00	100,000,000.00	60,000,000.00
Balance at End of Period	625,284,403.30	609,199,867.67	625,284,403.30	609,199,867.67	625,284,403.30	609,199,867.67

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF JUNE 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,192,953,134.24	4,077,184,833.34
Less Reserves for Depreciation & Amortization	1,816,719,332.63	1,747,987,466.06
Total	2,376,233,801.61	2,329,197,367.28
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	266,248.97
Special Funds	23,832,287.51	-
Other	-	-
Total	24,438,452.71	860,534.97
Current and Accrued Assets		
Cash	5,225,631.83	5,260,162.83
Special Deposits	753,695.74	7,219,564.49
Temporary Cash Investments	35,050.76	26.91
Accounts Receivable-Less Reserve	128,758,199.03	123,219,019.97
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	32,345,759.70	18,699,058.39
Materials & Supplies-At Average Cost		
Fuel	46,261,036.02	52,695,261.62
Plant Materials & Operating Supplies	25,300,599.08	24,240,682.81
Stores Expense	4,523,641.09	4,315,316.33
Gas Stored Underground	29,041,676.14	30,252,878.22
Allowance Inventory	13,394.11	18,596.71
Prepayments	2,732,417.38	2,421,667.91
Miscellaneous Current & Accrued Assets	197,429.62	1,935,936.78
Total	275,188,530.50	270,278,172.97
Deferred Debits and Other		
Unamortized Debt Expense	9,649,373.96	8,336,368.84
Unamortized Loss on Bonds	19,591,780.03	20,134,089.03
Accumulated Deferred Income Taxes	15,203,908.57	85,895,082.29
Deferred Regulatory Assets	165,430,228.46	21,607,447.76
Other Deferred Debits	44,542,168.70	71,786,254.58
Total	254,417,459.72	207,759,242.50
Total Assets and Other Debits	2,930,278,244.54	2,808,095,317.72

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(4,219,581.00)	(50,320,156.19)
Retained Earnings	625,284,403.30	609,199,867.67
Total Common Equity	1,085,399,357.75	1,023,214,246.93
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	20,000,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,022,703,357.75	1,912,942,840.98
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	87,186,000.00	-
Notes Payable to Associated Companies	-	898,000.00
Notes Payable	-	-
Accounts Payable	80,305,956.77	79,741,631.79
Accounts Payable to Associated Companies	61,833,841.48	47,615,895.04
Customer Deposits	18,740,803.30	17,764,260.75
Taxes Accrued	4,341,946.21	16,762,762.54
Interest Accrued	7,247,865.15	7,293,949.92
Dividends Declared	-	937,589.69
ST Obligations Under Capital Leases	388,302.00	-
Misc. Current & Accrued Liabilities	10,740,729.68	8,053,013.97
Total	270,785,444.59	180,317,103.70
Deferred Credits and Other		
LT Obligations Under Capital Leases	160,832.00	-
Accumulated Deferred Income Taxes	354,295,031.75	398,281,949.94
Investment Tax Credit	44,282,162.42	40,058,311.79
Regulatory Liabilities	54,236,047.24	43,825,060.48
Customer Advances for Construction	21,692,997.05	9,761,639.57
Asset Retirement Obligations	28,943,580.76	27,225,319.99
Other Deferred Credits	32,734,406.37	65,084,956.35
Misc. Long-Term Liabilities	6,824,538.04	68,965,853.40
Accum Provision for Post-Retirement Benefits	93,619,846.57	61,632,281.52
Total	636,789,442.20	714,835,373.04
Total Liabilities and Other Credits	2,930,278,244.54	2,808,095,317.72

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JUNE 30, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
				CAPITAL &	
	SHARES	SHARES	AMOUNT	S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(4,219,581.00)		
Retained Earnings			625,284,403.30		
Total Common Equity			1,085,399,357.75	51.44	53.66
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total First Mortgage Bonds			574,304,000.00	27.22	28.39
LT Notes Payable to Associated Companies			363,000,000.00	17.21	17.95
Total Capitalization			2,022,703,357.75	95.87	100.00
ST Notes Payable to Associated Companies			87,186,000.00	4.13	
Total Capitalization and Short-Term Debt			2,109,889,357.75	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,192,953,134 24	4.192,953.134 24
Reserves for Depreciation and Amortization		(1,816,719,332 63)
Electric	(1,533,106,866 34)	
Gas	(200,666,476 35)	
Common	(64,374,590 63)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(18,570,499 31)	
INVESTMENTS - AT COST		24,438,452 71
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360.36)	
Ohio Valley Electric Corporation	594,286 00	
Special Funds	23,832,287 51	
CASH		5,225,631 83
JP Morgan Chase	4,161,751 63	
BB&T	11,699 45	
Town and Country Bank	19,484 90	
US Bank	960,562 97	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	62,032 88	
OTHER SPECIAL DEPOSITS		753,695.74
MAN Margin Call	753,695.74	
TEMPORARY CASH INVESTMENTS		35,050 76
Other	35,050 76	
ACCOUNTS RECEIVABLE - LESS RESERVE		128,758,199 03
Working Funds	21,280 00	
Customers-Active	73,762,176.37	
Wholesale Sales	4,350,081 35	
Transmission Sales	200,022 19	
Unbilled Revenues	40,668,000 00	
Employee Computer Loans	111,538 69	
Damage Claims	718,874 92	
Officers and Employees	1.41	
Tax Refunds	3,040,438 57	
IMEA	2,120,809 85	
IMPA	2,206,858 39	
Other	2,508,089 28	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(1,131,261 00)	
Accrual	(819,585 20)	
Charged Off	2,078,814 56	
Recoveries	(1,259,229 36)	
A/R Miscellaneous	(589,623 00)	
Interest and Dividends Receivable	29,201 34	
Rents Receivable	741,710 67	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		32,345,759 70
E ON US Services/Kentucky Utilities	32,345,759 70	
FUEL		46,261,036 02
Coal 1,273,977 00 Tons @ $36 10; MMBTU 29.558,199 14 @ 155 61¢	45,994,528 80	
Fuel Oil 205,290 Gallons @ 159 92¢	328,300 38	
Gas Pipeline (7,151 00) MCF @ $8 64	(61,793 16)	
PLANT MATERIALS AND OPERATING SUPPLIES		25,300,599 08
Regular Materials and Supplies	25,088,242 98	
Limestone 32,681 91 Tons @ $6 50	212,356 10	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,523,641 09
Stores Expense Undistributed	4,523,641 09	
GAS STORED UNDERGROUND - CURRENT		29,041,676 14
Gas St Underground*3,700,799 MCF (14.73 psia) @ $7 85	29,041,676 14	
ALLOWANCE INVENTORY		13,394 11
Allowance Inventory	13,394 11	
PREPAYMENTS		2,732,417 38
Insurance	1,556,774 29	
Franchises	147,915 61	
Rights of Way	280,000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	36,028 62	
Other	621,698 83	
MISCELLANEOUS CURRENT ASSETS		197,429 62
Miscellaneous Current Assets	2,746 90	
Derivative Asset - Non-Hedging	194,682 72	
UNAMORTIZED DEBT EXPENSE		9,649,373 96
Pollution Control Series Y due May 1, 2027	473,962 49	
Pollution Control Series Z due Aug. 1, 2030	883,570 99	
Pollution Control Series AA due Sept 1, 2027	400,086 00	
Pollution Control Series BB due Sept 1, 2026	189,220 36	
Pollution Control Series CC due Sept 1, 2026	205,819 23	
Pollution Control Series DD due Nov 1, 2027	222,579 02	
Pollution Control Series EE due Nov. 1, 2027	222,612 67	
Pollution Control Series FF due Oct. 1, 2032	930,098 48	
Pollution Control Series GG due Oct 1, 2033	3,083,565 95	
Pollution Control Series HH due Feb. 1, 2035	1,010,310 40	
Pollution Control Bonds due Jun 1, 2033	513,625 72	
Pollution Control Bonds due Jun 1, 2033	472,519 30	
Pollution Control Bonds due Jun 1, 2033	1,041,403 35	
UNAMORTIZED LOSS ON BONDS		19,591,780 03
Refinanced and Called Bonds	19,591,780 03	
OTHER DEFERRED DEBITS	44,542,168 70	44,542,168 70
DEFERRED REGULATORY ASSET		165,430,228 46
Asset Retirement Obligations		
Electric	18,195,999 09	
Gas	4,983,832 00	
Common	22,407 35	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	2,800,502 62	
MISO Exit Fee	13,139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		15,203,908 57
Federal		
Electric	36,892,841 77	
Gas	6,411,654 98	
State		
Electric	7,023,102 25	
Gas	865,901 57	
Netting Out Deferred Tax Assets	(35,989,592 00)	
Total Assets and Other Debits	2,930,278,244.54	2,930,278,244.54

*Excludes:

	$	MCF
Non-recoverable Base Gas	9,648,855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788,845 00	10,810,000

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,085,399,357.75
Common Stock	425,170,424.09	
Retained Earnings	625,284,403.30	
Common Stock Expense	(835,888.64)	
Additional Paid-In Capital	40,000,000.00	
Other Comprehensive Income	(4,219,581.00)	
BONDS		574,304,000.00
Pollution Control Bonds	574,304,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000.00	363,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		87,186,000.00
Money Pool Payable	87,186,000.00	
ACCOUNTS PAYABLE		80,305,956.77
Regular	76,098,331.29	
Salaries and Wages Accrued	2,554,640.54	
Nonqualified Savings Plan	352,533.97	
Tax Collections - Payable	1,300,450.97	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		61,833,841.48
E ON US Services/Kentucky Utilities	61,833,841.48	
CUSTOMERS' DEPOSITS	18,740,803.30	18,740,803.30
Customers' Deposits		
TAXES ACCRUED	4,341,946.21	4,341,946.21
Taxes Accrued		
INTEREST ACCRUED		7,247,865.15
Loan Agreement - Pol. Cont. Bonds 2000 Series A	26,041.67	
Loan Agreement - Pol. Cont. Bonds 2000 Series A-TC	281,487.13	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	5,402.84	
Loan Agreement - Pol. Cont. Bonds 2001 Series A	136,750.69	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	167,139.73	
Loan Agreement - Pol. Cont. Bonds 2001 Series B	68,868.49	
Loan Agreement - Pol. Cont. Bonds 2001 Series B-TC	68,868.79	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	143,190.62	
Loan Agreement - Pol. Cont. Bonds 2003 Series A	146,666.67	
Loan Agreement - Pol. Cont. Bonds 2005 Series A	24,333.34	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	6,458.35	
Loan Agreement - Pol. Cont. Bonds 2007 Series B	7,333.36	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	237,666.64	
Interest Rate Swaps	133,719.61	
Fidelia	5,056,778.34	
Customers' Deposits	737,158.88	
ST OBLIGATIONS UNDER CAPITAL LEASES	388,302.00	388,302.00
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,740,729.68
Customer Overpayments	2,581,285.64	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,799,673.82	
Unearned Revenue	309,558.50	
Derivative Liabilities - Non-Hedging	435,194.26	
Postretirement Benefits - Current	2,248,334.00	
Other	116,683.46	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
LT OBLIGATIONS UNDER CAPITAL LEASES	160,832.00	160,832.00
CUSTOMERS' ADVANCES FOR CONSTRUCTION		21,692,997.05
Line Extensions		
Electric	799,072.49	
Gas	7,751,187.43	
Customer Advances - Arena	12,872,737.13	
Other	270,000.00	
ASSET RETIREMENT OBLIGATIONS		28,943,580.76
Electric	21,354,108.42	
Gas	7,564,477.95	
Common	24,994.39	
OTHER DEFERRED CREDITS		32,734,406.37
Other Deferred Credits	32,734,406.37	
REGULATORY LIABILITIES		54,236,047.24
Asset Retirement Obligations		
Electric	212,749.61	
Gas	82,649.88	
Deferred Taxes		
Federal		
Electric	27,846,617.75	
Gas	1,650,050.50	
State		
Electric	18,994,203.00	
Gas	2,664,816.50	
MISO Schedule 10 Charges	2,784,960.00	
INVESTMENT TAX CREDIT		44,282,162.42
Job Development Credit		
Electric	34,853,448.37	
Gas	1,228,714.05	
Advanced Coal Credit	8,200,000.00	
ACCUMULATED DEFERRED INCOME TAXES		354,295,031.75
Federal		
Electric	291,105,595.19	
Gas	42,768,800.77	
Common	(54,580.00)	
State		
Electric	49,783,036.46	
Gas	6,683,188.33	
Common	(1,417.00)	
Netting Out Deferred Tax Liabilities	(35,989,592.00)	
MISCELLANEOUS LONG-TERM LIABILITIES		6,824,538.04
Pension Payable	(3,967,637.00)	
Workers' Compensation	6,098,714.04	
Post Employment Benefits	3,620,043.00	
Uncertain Tax Positions	1,073,418.00	
ACCUMULATED PROVISION FOR BENEFITS		93,619,846.57
Postretirement Benefits	93,619,846.57	
Total Liabilities and Other Credits	2,930,278,244.54	2,930,278,244.54

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
JUNE 30, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	55,650,382.32	50,024,801.62
Items not requiring (providing) cash currently:		
Depreciation	59,375,718.50	58,594,671.67
Amortization	3,193,841.47	2,817,795.84
Deferred income taxes - net	6,492,629.11	(9,315,530.07)
Investment tax credit - net	3,211,925.28	(2,033,586.79)
Other	3,380,648.18	5,940,440.09
Change in receivables	23,457,542.81	125,651,054.38
Change in inventory	45,268,906.60	79,746,697.41
Change in allowance inventory	2,008.89	2,846.05
Change in payables and accrued expenses	(78,307,446.54)	(70,748,559.77)
Change in other regulatory assets	(1,810,524.92)	5,912,047.72
Change in other regulatory liabilities	(1,134,523.62)	1,931,642.38
Change in other deferred debits	(8,190,257.00)	(4,723,008.83)
Change in other deferred credits	(18,543,628.92)	23,450,761.13
Other	4,068,466.52	(3,751,524.51)
Net cash provided (used) by operating activities	96,115,688.68	263,500,548.32
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(85,980,096.90)	(65,770,866.62)
Change in long-term investments	5,458.27	(317,435.17)
Change in restricted cash	(8,980,135.34)	2,785,764.28
Net cash provided (used) by investing activities	(94,954,773.97)	(63,302,537.51)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	261,799,471.38	(1,821.17)
Net increase in short-term debt	19,362,000.00	-
Net increase in short-term capital lease obligations	388,302.00	-
Net increase in long-term capital lease obligations	160,832.00	-
Payments for retirement of long-term debt	(126,000,000.00)	-
Payments for retirement of preferred stock	(91,643,112.60)	-
Net decrease in short-term debt	-	(140,347,000.00)
Dividends on preferred stock	(4,416,711.93)	(1,687,682.38)
Dividends on common stock	(65,000,000.00)	(60,000,000.00)
Net cash provided (used) by financing activities	(5,349,219.15)	(202,036,503.55)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,188,304.44)	(1,838,492.74)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,260,682.59	5,260,189.74

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
JUNE 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	(114,698.96)	90,575.34	350,482.41	518,657.23	925,322.98	959,354.17
1992 Series A Variable TC	(221,983.33)	177,928.77	670,142.71	996,312.28	1,758,674.21	1,830,230.12
1993 Series A Variable Rate	(130,235.14)	107,046.58	392,885.10	583,529.23	1,037,074.02	1,069,048.15
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	78,125.01	71,875.01	459,062.49	414,562.55	915,451.39	748,750.05
2000 Series A Variable TC	263,894.17	248,037.37	1,532,090.83	1,376,036.79	3,152,183.20	2,603,260.17
2001 Series A Variable Rate	32,217.73	27,743.90	188,984.12	167,487.84	378,610.91	304,571.06
2001 Series A Variable Rate	69,534.25	68,794.51	408,390.44	375,830.14	817,360.31	684,969.20
2001 Series A Variable Rate TC	84,986.29	84,082.19	499,143.84	459,347.94	998,995.90	838,674.68
2001 Series B Variable Rate	107,684.94	108,452.05	635,542.49	593,323.98	1,277,979.48	1,085,666.43
2001 Series B Variable Rate TC	107,684.94	108,452.05	635,542.78	593,005.50	1,277,979.76	1,083,616.43
2002 Series A Variable Rate TC	134,241.21	125,288.39	768,365.38	687,626.62	1,529,373.70	1,260,982.67
2003 Series A Variable Rate	396,622.22	362,559.99	2,332,444.49	2,059,623.11	4,657,585.83	3,735,534.22
2005 Series A Variable Rate	119,277.79	115,361.11	722,172.22	644,194.40	1,429,838.88	1,156,405.46
2007 Series A Variable Rate	95,368.06	-	203,973.13	-	203,973.13	-
2007 Series B Variable Rate (4.6%)	108,631.12	-	237,795.56	-	237,795.56	-
2007 Series A Variable Rate	230,000.00	-	506,000.00	-	506,000.00	-
Interest Rate Swaps	133,719.62	144,410.76	782,666.00	1,177,657.89	1,544,773.48	3,012,523.96
Notes/Debentures	3,175,508.00	-	3,175,508.00	-	3,175,508.00	-
Fidelia	1,619,570.56	911,875.01	7,251,903.37	5,471,250.06	12,723,153.43	10,942,500.10
$5.875 Mandatory Redeemable Preferred Stock	-	104,036.46	345,972.25	624,218.76	933,472.25	1,248,437.46
Total	6,290,148.48	2,856,519.49	22,099,067.61	16,742,664.32	39,481,106.42	32,564,524.33
Amortization of Debt Expense - Net						
Amortization of Debt Expense	32,736.90	34,054.02	199,416.38	204,324.12	403,740.50	407,139.15
Amort. of Loss on Reacquired Debt	86,622.77	85,136.01	515,276.43	510,816.06	1,026,092.49	1,021,681.21
Total	119,359.67	119,190.03	714,692.81	715,140.18	1,429,832.99	1,428,820.36
Other Interest Charges						
Customers' Deposits	74,816.01	74,007.09	470,035.74	442,555.64	929,960.29	857,483.90
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	902,151.00	383,125.68	902,151.00
Other Tax Deficiencies	1,267.00	-	3,058.71	213.87	3,058.71	769,385.87
Gas Refunds	475.76	-	2,854.56	-	5,233.36	-
Interest on Debt to Associated Companies	339,792.94	(34,675.46)	1,597,624.03	1,029,337.69	2,430,944.01	2,385,008.58
Other	639.45	-	8,581.56	-	8,581.56	-
Total	416,991.16	39,331.63	1,023,420.29	2,374,258.20	3,760,903.61	4,914,029.35
Total Interest	6,826,499.31	3,015,041.15	23,837,180.71	19,832,062.70	44,671,843.02	38,907,374.04

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
JUNE 30, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,419,337.51	1,168,176.44	7,642,970.51	6,891,240.88
Unemployment	4,643.76	14,989.68	93,291.49	102,424.23
Federal Old Age and Survivors Insurance	501,397.40	254,544.90	3,056,377.48	2,959,626.06
Public Service Commission Fee	158,705.97	138,116.55	952,235.72	828,699.50
Federal Income	3,486,229.14	4,208,534.34	20,428,612.85	34,272,918.67
State Income	568,175.39	2,944,605.83	3,935,925.72	6,596,009.84
Miscellaneous	-	(151,173.69)	7,548.21	(141,404.66)
Total Charged to Operating Expense	6,138,489.17	8,577,794.05	36,116,961.98	51,509,514.52
Taxes Charged to Other Accounts	288,666.53	577,700.35	290,745.68	919,298.68
Taxes Accrued on Intercompany Accounts	(204,041.23)	(205,450.10)	(1,229,872.67)	(1,211,563.07)
Total Taxes Charged	6,223,114.47	8,950,044.30	35,177,834.99	51,217,250.13

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	7,699,367.00	13,983,118.77	7,642,217.47
State Unemployment	18,782.64	25,481.56	37,339.69	6,924.51
Federal Unemployment	29,205.50	23,860.24	52,334.22	731.52
Federal Old Age and Survivors	561,717.23	2,629,073.44	2,814,658.39	376,132.28
Federal Income	6,350,985.46	19,349,461.93	35,578,314.20	(9,877,866.81)
State Income	7,726,946.43	3,739,453.17	5,519,810.00	5,946,589.60
Kentucky Sales and Use Tax	10,878.70	1,641,526.09	1,405,187.15	247,217.64
Miscellaneous	0.37	69,611.56	69,611.93	(0.00)
Totals	28,624,485.57	35,177,834.99	59,460,374.35	4,341,946.21

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
JUNE 30, 2007

UTILITY PLANT IN SERVICE	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	8,959,414.22	(1,661,932.89)	(863.74)	7,296,617.59	1,952,554,542.92
Hydro	17,884,886.35	66,269.19	-	(6.50)	66,262.69	17,951,149.04
Other Production	225,436,782.99	43,431.44	-	-	43,431.44	225,480,214.43
Transmission	240,067,695.28	11,654,346.38	(413,644.40)	(3,177.21)	11,237,524.77	251,305,220.05
Distribution	754,284,748.12	4,408,473.32	(4,203,332.46)	(60,096.92)	145,043.94	754,429,792.06
General	16,886,738.80	31,931.13	(275,858.33)	(36,652.65)	(280,579.85)	16,606,158.95
Total Electric	3,199,821,117.16	25,163,865.68	(6,554,768.08)	(100,797.02)	18,508,300.58	3,218,329,417.74
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	270,404.57	(63,177.02)	-	207,227.55	61,255,517.32
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	986,647.10	(49,149.26)	(2,319.15)	935,178.69	441,055,968.07
General	10,346,233.87	293,280.81	(1,571,058.35)	(33,407.63)	(1,311,185.17)	9,035,048.70
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	1,558,149.22	(1,683,384.63)	(35,726.78)	(160,962.19)	526,389,619.67
Common						
Intangible	28,877,505.07	2,476,751.37	-	-	2,476,751.37	31,354,256.44
General	150,813,423.54	3,389,736.39	(1,586,995.32)	-	1,802,741.07	152,616,164.61
Total Common	179,690,928.61	5,866,487.76	(1,586,995.32)	-	4,279,492.44	183,970,421.05
Total Plant in Service	3,906,062,627.63	32,588,502.66	(9,825,148.03)	(136,523.80)	22,626,830.83	3,928,689,458.46
Construction Work In Progress						
Electric	154,377,558.86	33,456,649.11	-	-	33,456,649.11	187,834,207.97
Gas	54,810,960.24	13,050,125.73	-	-	13,050,125.73	67,861,085.97
Common	8,684,890.86	(116,509.02)	-	-	(116,509.02)	8,568,381.84
Total Construction Work In Progress	217,873,409.96	46,390,265.82	-	-	46,390,265.82	264,263,675.78
Total Utility Plant at Original Cost	4,123,936,037.59	78,978,768.48	(9,825,148.03)	(136,523.80)	69,017,096.65	4,192,953,134.24

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
JUNE 30, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(42,027,993.04)	6,554,768.08	-	-	-	-	(5,892,506.54)	(1,340,925,013.29)
Electric - ARO Steam	(2,049,614.55)	(76,948.93)	-	-	-	-	-	-	(2,126,563.48)
Electric - ARO Hydro	(15,828.80)	(741.96)	-	-	-	-	-	-	(16,570.76)
Electric - ARO Other Production	(108,105.20)	(5,043.12)	-	-	-	-	-	-	(113,148.32)
Electric - ARO Transmission	(2,165.47)	(82.97)	-	-	-	-	-	-	(2,248.44)
Electric - ARO Distribution	(12,001.89)	(182.82)	-	-	-	-	-	-	(12,184.71)
Gas	(148,577,916.87)	(5,200,747.15)	1,683,384.63	-	-	-	-	-	(152,095,279.39)
Gas - ARO Underground Storage	(392,040.25)	(4,541.64)	-	-	-	-	-	-	(396,581.89)
Gas - ARO Distribution	(19,101.73)	(54.44)	-	-	-	-	-	-	(19,156.17)
Common - ARO	(1,130.96)	(17.16)	-	-	-	-	-	-	(1,148.12)
Common	(62,084,425.21)	(3,783,240.97)	1,586,995.32	-	-	-	-	-	(64,280,670.86)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(51,099,594.20)	9,825,148.03	-	-	-	-	(5,892,506.54)	(1,559,988,565.43)
Salvage Reserves									
Steam Production	(46,966,253.01)	(2,862,372.99)	-	-	-	589,170.60	(245,427.65)	-	(49,484,883.05)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	-	-	-	(2,093,564.72)
Transmission	(16,367,877.32)	(540,737.83)	-	-	-	412,231.17	-	-	(16,496,383.98)
Distribution	(132,166,536.49)	(3,033,407.38)	-	-	-	1,802,618.86	(57,261.41)	-	(133,454,586.42)
Distribution General	89,695.45	9,464.72	-	-	-	487.32	-	-	99,647.49
Gas Stored Underground	249,305.84	(113,051.71)	-	-	-	18,102.09	-	-	154,356.22
Gas Transmission	(2,644,672.08)	(51,969.09)	-	-	-	-	-	-	(2,696,641.17)
Gas Distribution	(47,306,815.37)	(2,128,600.75)	-	-	-	76,041.73	(4,580.74)	-	(49,363,955.13)
Gas General	148,519.46	17,038.28	-	-	-	-	-	-	165,557.74
Common	(354,458.62)	(31,699.78)	-	-	-	174,952.75	-	-	(211,205.65)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(8,735,336.53)	-	-	-	3,073,604.52	(307,269.80)	-	(253,904,371.81)
Total Reserves									
Electric	(1,499,774,246.93)	(48,538,046.32)	6,554,768.08	-	-	2,804,507.95	(302,689.06)	(5,892,506.54)	(1,545,148,212.82)
Gas	(198,542,721.00)	(7,481,926.50)	1,683,384.63	-	-	94,143.82	(4,580.74)	-	(204,251,699.79)
Common	(62,440,014.79)	(3,814,957.91)	1,586,995.32	-	-	174,952.75	-	-	(64,493,024.63)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(59,834,930.73)	9,825,148.03	-	-	3,073,604.52	(307,269.80)	(5,892,506.54)	(1,813,892,937.24)
Retirement Work in Progress									
108001									
Electric	3,768,496.16	-	-	(1,194,605.96)	(963,023.03)	(12,044.61)	497.82	37,101.83	1,636,422.21
Gas	(465,950.02)	-	-	620,863.56	(42,658.23)	17,914.15	-	-	130,169.46
Common	(502,243.45)	-	-	567,920.37	(24,751.64)	(60,659.86)	-	-	(19,734.58)
Total 108001 RWIP	2,800,302.69	-	-	(5,822.03)	(1,030,432.90)	(54,790.32)	497.82	37,101.83	1,746,857.09
108901									
Electric	8,273,600.70	-	-	6,244,184.17	4,193,572.61	(6,339,515.43)	(194,853.83)	(1,772,063.95)	10,404,924.27
Gas	3,107,219.25	-	-	198,479.08	(28,589.07)	177,944.72	-	-	3,455,053.98
Common	(4,637,184.09)	-	-	(5,698,720.60)	(8,378.82)	10,479,652.09	2,800.00	-	138,168.58
Total 108901 RWIP	6,743,635.86	-	-	743,942.65	4,156,604.72	4,318,081.38	(192,053.83)	(1,772,063.95)	13,998,146.83
Total RWIP	9,543,938.55	-	-	738,120.62	3,126,171.82	4,263,291.06	(191,556.01)	(1,734,962.12)	15,745,003.92
YTD Activity	(1,751,213,044.17)	(59,834,930.73)	9,825,148.03	738,120.62	3,126,171.82	7,336,895.58	(498,825.81)	(7,627,468.66)	(1,798,147,933.32)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(3,193,841.47)	-	-	-	-	-	-	(18,570,499.31)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(3,193,841.47)	-	-	-	-	-	-	(18,571,399.31)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(63,028,772.20)	9,825,148.03	738,120.62	3,126,171.82	7,336,895.58	(498,825.81)	(7,627,468.66)	(1,816,719,332.63)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,376,233,801.61

LG&E Monthly Report to KPSC – May 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

Financial Reports

May 31, 2007

Prepared by Regulatory Accounting and Reporting

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	73,375,945.77	76,011,658.26	(2,635,712.49)	(3.47)
Gas Operating Revenues	15,003,930.09	16,465,446.70	(1,461,516.61)	(8.88)
Total Operating Revenues	88,379,875.86	92,477,104.96	(4,097,229.10)	(4.43)
Fuel for Electric Generation	26,870,152.89	24,238,307.11	2,631,845.78	10.86
Power Purchased	5,713,167.84	10,674,376.37	(4,961,208.53)	(46.48)
Gas Supply Expenses	8,862,386.30	11,721,551.74	(2,859,165.44)	(24.39)
Other Operation Expenses	16,051,856.62	16,170,883.31	(119,026.69)	(0.74)
Maintenance	7,609,357.74	8,023,503.25	(414,145.51)	(5.16)
Depreciation	9,787,420.55	9,782,259.19	5,161.36	0.05
Amortization Expense	540,719.87	450,400.10	90,319.77	20.05
Regulatory Credits	(163,026.95)	(152,236.58)	(10,790.37)	7.09
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	2,851,117.18	2,338,666.62	512,450.56	21.91
State Income - Estimated	543,069.93	519,703.70	23,366.23	4.50
Property and Other	1,889,120.23	1,947,105.38	(57,985.15)	(2.98)
Investment Tax Credit	-	-	-	-
Amortization of Investment Tax Credit	(329,242.00)	(335,139.00)	5,897.00	(1.76)
Gain from Disposition of Allowances	-	-	-	-
Accretion Expense	148,341.13	137,606.12	10,735.01	7.80
Total Operating Expenses	80,374,441.33	85,516,987.31	(5,142,545.98)	(6.01)
Net Operating Income	8,005,434.53	6,960,117.65	1,045,316.88	15.02
Other Income Less Deductions	725,670.95	311,724.81	413,946.14	132.79
Income Before Interest Charges	8,731,105.48	7,271,842.46	1,459,263.02	20.07
Interest on Long Term Debt	3,561,880.16	2,925,567.84	636,312.32	21.75
Amortization of Debt Expense - Net	119,095.63	119,190.03	(94.40)	(0.08)
Other Interest Expenses	715,109.24	87,690.35	627,418.89	715.49
Total Interest Charges	4,396,085.03	3,132,448.22	1,263,636.81	40.34
Net Inc Before Cumulative Effect of Acctg Chg	4,335,020.45	4,139,394.24	195,626.21	4.73
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	4,335,020.45	4,139,394.24	195,626.21	4.73
Preferred Dividend Requirements	5,000.00	312,529.90	(307,529.90)	(98.40)
Earnings Available for Common	4,330,020.45	3,826,864.34	503,156.11	13.15

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	362,174,397.15	349,723,470.54	12,450,926.61	3.56
Gas Operating Revenues	190,621,089.29	242,105,474.54	(51,484,385.25)	(21.27)
Total Operating Revenues	552,795,486.44	591,828,945.08	(39,033,458.64)	(6.60)
Fuel for Electric Generation	127,807,157.65	108,147,884.27	19,659,273.38	18.18
Power Purchased	36,163,597.41	46,015,354.16	(9,851,756.75)	(21.41)
Gas Supply Expenses	140,055,692.41	193,830,863.87	(53,775,171.46)	(27.74)
Other Operation Expenses	75,128,076.48	78,256,547.98	(3,128,471.50)	(4.00)
Maintenance	31,618,436.89	31,953,014.92	(334,578.03)	(1.05)
Depreciation	48,981,745.82	48,726,980.19	254,765.63	0.52
Amortization Expense	2,643,533.83	2,309,386.67	334,147.16	14.47
Regulatory Credits	(799,555.39)	(761,182.84)	(38,372.55)	5.04
Taxes				
Federal Income	10,908,503.13	23,177,023.97	(12,268,520.84)	(52.93)
State Income	2,117,399.64	2,120,879.48	(3,479.84)	(0.16)
Deferred Federal Income - Net	1,046,568.59	(10,832,914.59)	11,879,483.18	(109.66)
Deferred State Income - Net	289,123.48	119,008.46	170,115.02	142.94
Federal Income - Estimated	6,033,880.58	6,887,360.36	(853,479.78)	(12.39)
State Income - Estimated	1,250,350.69	1,530,524.53	(280,173.84)	(18.31)
Property and Other	9,668,338.77	9,215,932.13	452,406.64	4.91
Investment Tax Credit	2,600,000.00	-	2,600,000.00	100.00
Amortization of Investment Tax Credit	(1,652,521.40)	(1,687,071.43)	34,550.03	(2.05)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	742,529.45	688,030.54	54,498.91	7.92
Total Operating Expenses	494,049,765.34	538,693,016.60	(44,643,251.26)	(8.29)
Net Operating Income	58,745,721.10	53,135,928.48	5,609,792.62	10.56
Other Income Less Deductions	(577,031.44)	(21,021.23)	(556,010.21)	2,644.99
Income Before Interest Charges	58,168,689.66	53,114,907.25	5,053,782.41	9.51
Interest on Long Term Debt	15,808,919.13	13,886,144.83	1,922,774.30	13.85
Amortization of Debt Expense - Net	595,333.14	595,950.15	(617.01)	(0.10)
Other Interest Expenses	606,429.13	2,334,926.57	(1,728,497.44)	(74.03)
Total Interest Charges	17,010,681.40	16,817,021.55	193,659.85	1.15
Net Inc Before Cumulative Effect of Acctg Chg	41,158,008.26	36,297,885.70	4,860,122.56	13.39
Cumulative Effect of Accounting Change Net of Tax	-	-	-	-
Net Income	41,158,008.26	36,297,885.70	4,860,122.56	13.39
Preferred Dividend Requirements	941,636.24	1,493,902.50	(552,266.26)	(36.97)
Earnings Available for Common	40,216,372.02	34,803,983.20	5,412,388.82	15.55

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	955,111,455.17	968,066,611.54	(12,955,156.37)	(1.34)
Gas Operating Revenues	343,745,193.41	469,600,950.77	(125,855,757.36)	(26.80)
Total Operating Revenues	1,298,856,648.58	1,437,667,562.31	(138,810,913.73)	(9.66)
Fuel for Electric Generation	312,230,117.61	289,596,770.23	22,633,347.38	7.82
Power Purchased	103,981,867.86	129,202,215.33	(25,220,347.47)	(19.52)
Gas Supply Expenses	241,508,290.30	372,208,329.60	(130,700,039.30)	(35.11)
Other Operation Expenses	186,712,992.85	220,206,275.50	(33,493,282.65)	(15.21)
Maintenance	78,701,075.72	67,978,238.84	10,722,836.88	15.77
Depreciation	118,237,035.89	117,542,491.25	694,544.64	0.59
Amortization Expense	6,201,502.68	6,008,325.15	193,177.53	3.22
Regulatory Credits	(2,299,309.06)	(13,522,618.47)	11,223,309.41	(83.00)
Taxes				
Federal Income	50,386,272.72	80,469,580.79	(30,083,308.07)	(37.38)
State Income	11,357,905.36	8,788,748.86	2,569,156.50	29.23
Deferred Federal Income - Net	4,854,721.98	(19,852,600.14)	24,707,322.12	(124.45)
Deferred State Income - Net	(1,043,008.48)	(820,980.97)	(222,027.51)	27.04
Federal Income - Estimated	(853,479.78)	(502,454.08)	(351,025.70)	69.86
State Income - Estimated	(280,173.84)	(346,253.73)	66,079.89	(19.08)
Property and Other	22,161,097.94	20,547,550.97	1,613,546.97	7.85
Investment Tax Credit	5,600,000.00	-	5,600,000.00	100.00
Amortization of Investment Tax Credit	(3,987,111.41)	(4,065,375.57)	78,264.16	(1.93)
Gain from Disposition of Allowances	(553,092.69)	(1,004,606.07)	451,513.38	(44.94)
Accretion Expense	2,112,540.50	1,096,921.54	1,015,618.96	92.59
Total Operating Expenses	1,135,029,246.15	1,273,530,559.03	(138,501,312.88)	(10.88)
Net Operating Income	163,827,402.43	164,137,003.28	(309,600.85)	(0.19)
Other Income Less Deductions	(1,278,299.01)	586,567.63	(1,864,866.64)	(317.93)
Income Before Interest Charges	162,549,103.42	164,723,570.91	(2,174,467.49)	(1.32)
Interest on Long Term Debt	36,047,477.43	32,396,523.39	3,650,954.04	11.27
Amortization of Debt Expense - Net	1,429,663.35	1,427,906.60	1,756.75	0.12
Other Interest Expenses	3,383,244.08	4,956,913.85	(1,573,669.77)	(31.75)
Total Interest Charges	40,860,384.86	38,781,343.84	2,079,041.02	5.36
Net Inc Before Cumulative Effect of Acctg Chg	121,688,718.56	125,942,227.07	(4,253,508.51)	(3.38)
Cumulative Effect of Accounting Change Net of Tax	-	7,421,571.50	(7,421,571.50)	(100.00)
Net Income	121,688,718.56	118,520,655.57	3,168,062.99	2.67
Preferred Dividend Requirements	3,153,098.41	3,321,198.14	(168,099.73)	(5.06)
Earnings Available for Common	118,535,620.15	115,199,457.43	3,336,162.72	2.90

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF RETAINED EARNINGS
MAY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Balance at Beginning of Period	636,462,008.79	611,958,617.30	639,104,729.77	620,981,498.44	615,785,481.64	550,586,024.21
Add:						
Credits from Income	4,335,020.45	4,139,394.24	41,158,008.26	36,297,885.70	121,688,718.56	118,520,655.57
FIN 48 Adjustment	-		258,182.00		258,182.00	
Deduct:						
Adjustment to Retained Earnings	-		3,787,254.55		3,787,254.55	
Preferred Dividends						
$25 Par Value						
5% Series			746,782.16	268,841.19	943,931.75	1,075,364.80
Without Par Value						
Auction Rate			624,999.99	600,000.01	2,209,166.66	2,245,833.34
Preferred Dividends Accrued						
$25 Par Value						
5% Series	5,000.00	89,613.23	(430,145.91)	179,227.96		
Without Par Value						
Auction Rate	-	222,916.67		445,833.34		
Common Dividends						
Common Stock Without Par Value	-	-	35,000,000.00	40,000,000.00	90,000,000.00	50,000,000.00
Balance at End of Period	640,792,029.24	615,785,481.64	640,792,029.24	615,785,481.64	640,792,029.24	615,785,481.64

LOUISVILLE GAS AND ELECTRIC COMPANY
COMPARATIVE BALANCE SHEETS AS OF MAY 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,173,421,791.26	4,066,221,383.37
Less Reserves for Depreciation & Amortization	1,808,401,790.04	1,744,749,882.52
Total	2,365,020,001.22	2,321,471,500.85
Investments - At Cost		
Ohio Valley Electric Corporation	594,286.00	594,286.00
Nonutility Property-Less Reserve	11,879.20	218,173.85
Other	-	-
Total	606,165.20	812,459.85
Current and Accrued Assets		
Cash	5,029,381.61	7,348,532.17
Special Deposits	25,652,417.81	7,346,279.27
Temporary Cash Investments	34,905.51	26.91
Accounts Receivable-Less Reserve	115,380,858.34	128,694,969.67
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	19,477,300.86	21,847,673.49
Materials & Supplies-At Average Cost		
Fuel	49,800,773.87	52,309,607.62
Plant Materials & Operating Supplies	25,204,352.73	23,946,215.66
Stores Expense	4,452,008.99	4,317,529.97
Gas Stored Underground	16,965,730.47	22,839,002.99
Allowance Inventory	13,712.44	19,043.00
Prepayments	3,153,547.94	3,003,244.67
Miscellaneous Current & Accrued Assets	1,381,051.41	1,669,660.84
Total	266,546,041.98	273,341,786.26
Deferred Debits and Other		
Unamortized Debt Expense	9,599,395.85	8,370,422.84
Unamortized Loss on Bonds	19,678,402.76	20,219,225.03
Accumulated Deferred Income Taxes	53,339,495.57	85,408,693.06
Deferred Regulatory Assets	165,120,704.58	21,136,784.21
Other Deferred Debits	41,225,032.01	67,095,639.18
Total	288,963,030.77	202,230,764.32
Total Assets and Other Debits	2,921,135,239.17	2,797,856,511.28

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	425,170,424.09	425,170,424.09
Common Stock Expense	(835,888.64)	(835,888.64)
Paid-In Capital	40,000,000.00	40,000,000.00
Other Comprehensive Income	(6,465,561.00)	(50,645,330.19)
Retained Earnings	640,792,029.24	615,785,481.64
Total Common Equity	1,098,661,003.69	1,029,474,686.90
Preferred Stock	-	70,424,594.05
Pollution Control Bonds	574,304,000.00	574,304,000.00
Mandatory Redeemable Preferred Stock	-	20,000,000.00
LT Notes Payable to Associated Companies	363,000,000.00	225,000,000.00
Total Capitalization	2,035,965,003.69	1,919,203,280.95
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	1,250,000.00
ST Notes Payable to Associated Companies	21,033,000.00	-
Notes Payable to Associated Companies	14,880,000.00	8,875,000.00
Notes Payable	-	-
Accounts Payable	71,538,904.29	70,481,925.95
Accounts Payable to Associated Companies	57,045,277.78	29,655,120.81
Customer Deposits	18,395,093.30	17,746,172.35
Taxes Accrued	15,712,248.11	26,854,367.70
Interest Accrued	6,128,905.99	5,344,052.87
Dividends Declared	-	625,059.80
Misc. Current & Accrued Liabilities	11,789,959.41	7,318,690.03
Total	216,523,388.88	168,150,389.51
Deferred Credits and Other		
Accumulated Deferred Income Taxes	390,473,578.71	402,915,098.65
Investment Tax Credit	42,017,715.74	40,404,827.15
Regulatory Liabilities	55,503,516.51	40,332,040.75
Customer Advances for Construction	21,610,338.57	9,751,558.38
Asset Retirement Obligations	28,829,938.63	27,087,549.09
Other Deferred Credits	29,799,259.62	59,451,300.12
Misc. Long-Term Liabilities	6,752,934.37	68,903,837.65
Accum Provision for Post-Retirement Benefits	93,659,564.45	61,656,629.03
Total	668,646,846.60	710,502,840.82
Total Liabilities and Other Credits	2,921,135,239.17	2,797,856,511.28

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
MAY 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	75,000,000	21,294,223	425,170,424.09		
Common Stock Expense			(835,888.64)		
Paid-In Capital			40,000,000.00		
Other Comprehensive Income			(6,465,561.00)		
Retained Earnings			640,792,029.24		
Total Common Equity			1,098,661,003.69	53.03	53.96
Long-Term Debt					
Pollution Control Bonds	Not Limited				
PCB Y JC 05/01/00 Due 05/01/27 VAR%			25,000,000.00		
PCB Z JC 08/01/00 Due 08/01/30 VAR%			83,335,000.00		
PCB AA JC 09/11/01 Due 09/01/27 VAR%			10,104,000.00		
PCB BB JC 03/06/01 Due 09/01/26 VAR%			22,500,000.00		
PCB CC TC 03/06/01 Due 09/01/26 VAR%			27,500,000.00		
PCB DD JC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB EE TC 03/22/01 Due 11/01/27 VAR%			35,000,000.00		
PCB FF TC 10/23/02 Due 10/01/32 VAR%			41,665,000.00		
PCB GG JC 11/20/03 Due 10/01/33 VAR%			128,000,000.00		
PCB HH JC 04/13/05 Due 02/01/35 VAR%			40,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			31,000,000.00		
PCB JC 04/26/07 Due 06/01/33 VAR%			35,200,000.00		
PCB TC 04/26/07 Due 06/01/33 VAR%			60,000,000.00		
Total First Mortgage Bonds			574,304,000.00	27.72	28.21
LT Notes Payable to Associated Companies			363,000,000.00	17.52	17.83
Total Capitalization			2,035,965,003.69	98.27	100.00
ST Notes Payable to Associated Companies			21,033,000.00	1.01	
Notes Payable to Associated Companies			14,880,000.00	0.72	
Total Capitalization and Short-Term Debt			2,071,878,003.69	100.00	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,173,421,791 26	4,173,421,791 26
Reserves for Depreciation and Amortization		(1,808,401,790 04)
Depreciation of Plant		
Electric	(1,526,797,116 26)	
Gas	(199,369,606 39)	
Common	(64,213,975 72)	
Amortization of Plant		
Electric	(100 00)	
Gas	(800 00)	
Common	(18,020,191 67)	
INVESTMENTS - AT COST		606,165 20
Nonutility Property	75,239 56	
Nonutility Property Reserve	(63,360 36)	
Ohio Valley Electric Corporation	594,286 00	
CASH		5,029,381 61
JP Morgan Chase	3,264,746 36	
BB&T	11,703 80	
Town and Country Bank	185,838 29	
US Bank	968,644 53	
Bedford Loan and Deposit Bank	100 00	
Farmers Bank	10,000 00	
Meade County Bank	588,348 63	
OTHER SPECIAL DEPOSITS		25,652,417 81
Collateral Deposit - Interest Rate Swaps	10,911,774 98	
Other Special Deposits	1,916,242 32	
Restricted Cash	12,824,400 51	
TEMPORARY CASH INVESTMENTS		34,905 51
Other	34,905 51	
ACCOUNTS RECEIVABLE - LESS RESERVE		115,380,858 34
Working Funds	21,280 00	
Customers-Active	64,305,134 59	
Wholesale Sales	5,257,556 91	
Transmission Sales	235,340 67	
Unbilled Revenues	37,608,000 00	
Employee Computer Loans	119,351 27	
Damage Claims	726,902 93	
Officers and Employees	1 41	
Tax Refunds	3,024,737 11	
IMEA	1,964,565 08	
IMPA	2,034,673 07	
Other	2,002,372 65	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(1,284,391 00)	
Accrual	(590,772 20)	
Charged Off	1,698,506 59	
Recoveries	(1,107,734 39)	
A/R Miscellaneous	(1,011,549 00)	
Interest and Dividends Receivable	2,102 42	
Rents Receivable	374,780 23	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		19,477,300 86
E ON US Services/Kentucky Utilities	19,477,300 86	
FUEL		49,800,773 87
Coal 1,334,265 67 Tons @ $36 10; MMBTU 31,002,606 87 @ 155 36¢	48,164,687 05	
Fuel Oil 240,527 Gallons @ 161.68¢	388,880 49	
Gas Pipeline 159,608 MCF @ $7 81	1,247,206 33	
PLANT MATERIALS AND OPERATING SUPPLIES		25,204,352 73
Regular Materials and Supplies	25,050,475 71	
Limestone 23,484 91 Tons @ $6 55	153,877 02	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
STORES EXPENSE		4,452.008 99
Stores Expense Undistributed	4,452.008 99	
GAS STORED UNDERGROUND - CURRENT		16,965,730 47
Gas St. Underground*2,309.499 MCF (14 73 psia) @ $7 35	16.965.730 47	
ALLOWANCE INVENTORY		13,712 44
Allowance Inventory	13.712 44	
PREPAYMENTS		3,153,547 94
Insurance	1.912,846 39	
Franchises	189.387 28	
Taxes	158,705 97	
Rights of Way	280.000 03	
Risk Management and Workers Compensation	90,000 00	
Vehicle License	40.031 80	
Other	482,576.47	
MISCELLANEOUS CURRENT ASSETS		1.381,051.41
Miscellaneous Current Assets	2,725 04	
Derivative Asset - Non-Hedging	1.378,326.37	
UNAMORTIZED DEBT EXPENSE		9,599.395 85
Pollution Control Series Y due May 1, 2027	475,954 49	
Pollution Control Series Z due Aug 1, 2030	886,760 99	
Pollution Control Series AA due Sept 1, 2027	401,739 00	
Pollution Control Series BB due Sept 1, 2026	190,043 36	
Pollution Control Series CC due Sept 1, 2026	206,714 23	
Pollution Control Series DD due Nov. 1, 2027	223,491 02	
Pollution Control Series EE due Nov 1, 2027	223.524 67	
Pollution Control Series FF due Oct 1, 2032	933,168 48	
Pollution Control Series GG due Oct. 1, 2033	3,093.325 17	
Pollution Control Series HH due Feb. 1, 2035	1.013,362 40	
Pollution Control Bonds due Jun. 1, 2033	473,909 62	
Pollution Control Bonds due Jun. 1, 2033	474,028 98	
Pollution Control Bonds due Jun 1, 2033	1,003,373 44	
UNAMORTIZED LOSS ON BONDS		19,678.402 76
Refinanced and Called Bonds	19,678,402 76	
OTHER DEFERRED DEBITS	41.225,032 01	41,225,032 01
DEFERRED REGULATORY ASSET		165.120.704 58
Asset Retirement Obligations		
Electric	18,068,754 84	
Gas	4,948,170 29	
Common	22,286 36	
Pension & Postretirement Benefits	126,288,471 00	
ECR Ash Hauling	2.654,005 69	
MISO Exit Fee	13,139,016 40	
ACCUMULATED DEFERRED INCOME TAXES		53,339,495 57
Federal		
Electric	38,435,949.48	
Gas	6,683.543 95	
State		
Electric	7,304.520 33	
Gas	915,481 81	

* Excludes:	$	MCF
Non-recoverable Base Gas	9.648.855 00	7,880,000
Recoverable Base Gas	2,139,990.00	2,930,000
	11,788.845 00	10,810,000

Total Assets and Other Debits	2,921,135,239.17	2,921,135,239.17

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,098,661,003 69
Common Stock	425,170,424 09	
Retained Earnings	640,792,029 24	
Common Stock Expense	(835,888 64)	
Additional Paid-In Capital	40,000,000 00	
Other Comprehensive Income	(6,465,561 00)	
BONDS		574,304,000 00
Pollution Control Bonds	574,304,000 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	363,000,000 00	363,000,000 00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		21,033,000 00
Money Pool Payable	21,033,000 00	
NOTES PAYABLE TO ASSOCIATED COMPANIES		14,880,000 00
Notes Payable to Other	14,880,000 00	
ACCOUNTS PAYABLE		71,538,904 29
Regular	68,117,203.89	
Salaries and Wages Accrued	2,130,313 51	
Nonqualified Savings Plan	345,156 70	
Tax Collections - Payable	946,230 19	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		57,045,277 78
E ON US Services/Kentucky Utilities	57,045,277 78	
CUSTOMERS' DEPOSITS	18,395,093 30	18,395,093 30
TAXES ACCRUED	15,712,248 11	15,712,248 11
INTEREST ACCRUED		6,128,905.99
Interest on Long-Term Debt		
Loan Agreement - Pol Cont *Bonds 1992 Series A*	114,698.96	
Loan Agreement - Pol Cont. Bonds 1992 Series A-TC	221,983.33	
Loan Agreement - Pol Cont Bonds 1993 Series A	130,235 14	
Loan Agreement - Pol Cont Bonds 2000 Series A	39,062.50	
Loan Agreement - Pol Cont. Bonds 2000 Series A-TC	17,592.96	
Loan Agreement - Pol Cont Bonds 2001 Series A	2,189 20	
Loan Agreement - Pol. Cont Bonds 2001 Series A	67,216.44	
Loan Agreement - Pol. Cont. Bonds 2001 Series A-TC	82,153.43	
Loan Agreement - Pol Cont. Bonds 2001 Series B	303,473.97	
Loan Agreement - Pol Cont Bonds 2001 Series B-TC	303,474.27	
Loan Agreement - Pol. Cont. Bonds 2002 Series A-TC	8,949.41	
Loan Agreement - Pol Cont. Bonds 2003 Series A	210,488.89	
Loan Agreement - Pol Cont Bonds 2005 Series A	12,500 00	
Loan Agreement - Pol. Cont. Bonds 2007 Series A	63,878.95	
Loan Agreement - Pol Cont Bonds 2007 Series B	78,173.36	
Loan Agreement - Pol Cont Bonds 2007 Series A	275,999 97	
Interest Rate Swaps	99,032 16	
Interest Accrued on Other *Liabilities*		
Fidelia	3,437,207 78	
Customers' Deposits	759,343.61	
Other	(98,748 34)	

LOUISVILLE GAS AND ELECTRIC COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,789,959 41
Customer Overpayments	2,660,354 79	
UK Emission Research Grant	250.000 00	
Vacation Pay Accrued	4,937,253 44	
Derivative Liabilities - Non-Hedging	1,573,158.71	
Postretirement Benefits - Current	2,248,334 00	
Other	120,858 47	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		21,610,338 57
Line Extensions		
Electric	799,072 49	
Gas	7,716,865 57	
Customer Advances - Arena	12,824,400 51	
Other	270,000 00	
ASSET RETIREMENT OBLIGATIONS		28,829,938 63
Electric	21,275,488 10	
Gas	7,529,574 27	
Common	24,876 26	
OTHER DEFERRED CREDITS	29,799,259 62	29,799,259 62
REGULATORY LIABILITIES		55,503,516.51
Asset Retirement Obligations		
Electric	210,629 54	
Gas	78,058.22	
Deferred Taxes		
Federal		
Electric	28,982,470 75	
Gas	1,852,072 50	
State		
Electric	19,198,785 00	
Gas	2,675,036 50	
MISO Schedule 10 Charges	2,506,464.00	
INVESTMENT TAX CREDIT		42,017,715 74
Investment Tax Credit (prior law)		
Electric	174 88	
Job Development Credit		
Electric	35,174,208 34	
Gas	1,243,332 52	
Advanced Coal Credit	5,600,000 00	
ACCUMULATED DEFERRED INCOME TAXES		390,473,578 71
Federal		
Electric	291,598,637 50	
Gas	42,518,366 58	
Common	(54,580 00)	
State		
Electric	49,786,629 88	
Gas	6,625,941 75	
Common	(1,417.00)	
MISCELLANEOUS LONG-TERM LIABILITIES		6,752,934 37
Pension Payable	(3,967,637 00)	
Workers' Compensation	6,028,377 37	
Post Employment Benefits	3,620,043.00	
Uncertain Tax Positions	1,072,151 00	
ACCUMULATED PROVISION FOR BENEFITS		93,659,564 45
Postretirement Benefits	93,659,564 45	
Total Liabilities and Other Credits	2,921,135,239.17	2,921,135,239.17

LOUISVILLE GAS AND ELECTRIC COMPANY
STATEMENT OF CASH FLOWS
MAY 31, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	41,158,008.26	36,297,885.70
Items not requiring (providing) cash currently:		
Depreciation	48,981,745.82	48,726,980.19
Amortization	2,643,533.83	2,309,386.67
Deferred income taxes - net	4,535,589.07	(4,195,992.13)
Investment tax credit - net	947,478.60	(1,687,071.43)
Other	525,169.13	4,748,408.66
Change in receivables	49,703,342.34	117,026,489.58
Change in inventory	53,972,992.87	87,838,480.15
Change in allowance inventory	1,690.56	2,399.76
Change in payables and accrued expenses	(87,981,132.34)	(90,641,759.82)
Change in other regulatory assets	(1,501,001.04)	6,382,711.27
Change in other regulatory liabilities	132,945.65	(1,561,377.35)
Change in other deferred debits	(7,131,018.68)	(3,630,350.89)
Change in other deferred credits	(21,478,775.67)	17,817,104.90
Other	5,476,491.90	1,021,124.67
Net cash provided (used) by operating activities	89,987,060.30	220,454,419.93
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(57,242,010.43)	(48,544,729.23)
Change in long-term investments	5,458.27	(81,879.42)
Change in restricted cash	(8,130,327.58)	2,814,890.76
Net cash provided (used) by investing activities	(65,366,879.74)	(45,811,717.89)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	135,882,186.38	(1,821.17)
Payments for retirement of preferred stock	(91,643,112.60)	-
Net decrease in short-term debt	(31,911,000.00)	(132,370,000.00)
Dividends on preferred stock	(4,416,711.93)	(1,687,682.38)
Dividends on common stock	(35,000,000.00)	(40,000,000.00)
Net cash provided (used) by financing activities	(27,088,638.15)	(174,059,503.55)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,468,457.59)	583,198.49
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,448,987.03	7,098,682.48
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,980,529.44	7,681,880.97

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF INTEREST CHARGES
MAY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
Loan Agreement - Poll. Control Bonds						
1992 Series A Variable	-	92,264.37	465,181.37	428,081.89	1,130,597.28	937,417.19
1992 Series A Variable TC	-	182,769.86	892,126.04	818,383.51	2,158,586.31	1,778,745.19
1993 Series A Variable Rate	-	109,785.43	523,120.24	476,482.65	1,274,355.74	1,046,192.25
1995 Series A (5.90%)	-	-	-	-	-	-
2000 Series A Variable Rate	79,618.04	79,652.79	380,937.48	342,687.54	909,201.39	733,125.04
2000 Series A Variable TC	265,977.53	251,046.69	1,268,196.66	1,127,999.42	3,136,326.40	2,561,939.90
2001 Series A Variable Rate	33,820.35	31,757.43	156,766.39	139,743.94	374,137.08	297,063.22
2001 Series A Variable Rate	71,704.12	71,087.67	338,856.19	307,035.63	816,620.57	664,108.94
2001 Series A Variable Rate TC	87,638.37	86,884.93	414,157.55	375,265.75	998,091.80	813,178.80
2001 Series B Variable Rate	109,391.78	112,067.12	527,857.55	484,871.93	1,278,746.59	1,053,217.12
2001 Series B Variable Rate TC	109,391.78	112,067.12	527,857.84	484,553.45	1,278,746.87	1,051,224.67
2002 Series A Variable Rate TC	134,743.47	122,469.99	634,124.17	562,338.23	1,520,420.88	1,239,434.41
2003 Series A Variable Rate	399,822.23	390,752.00	1,935,822.27	1,697,063.12	4,623,523.60	3,659,303.11
2005 Series A Variable Rate	132,122.22	119,722.19	602,894.43	528,833.29	1,425,922.20	1,116,444.35
2007 Series A Variable Rate	92,889.78	-	108,605.07	-	108,605.07	-
2007 Series B Variable Rate (4.6%)	90,831.12	-	129,164.44	-	129,164.44	-
2007 Series A Variable Rate	258,155.56	-	276,000.00	-	276,000.00	-
Interest Rate Swaps	99,032.14	147,328.78	648,946.38	1,033,247.13	1,555,464.62	3,248,071.86
Fidelia	1,596,741.67	911,875.01	5,632,332.81	4,559,375.05	12,015,457.88	10,942,500.08
$5.875 Mandatory Redeemable Preferred Stock	-	104,036.46	345,972.25	520,182.30	1,037,508.71	1,254,557.26
Total	3,561,880.16	2,925,567.84	15,808,919.13	13,886,144.83	36,047,477.43	32,396,523.39
Amortization of Debt Expense - Net						
Amortization of Debt Expense	32,472.86	34,054.02	166,679.48	170,270.10	405,057.62	406,217.38
Amort. of Loss on Reacquired Debt	86,622.77	85,136.01	428,653.66	425,680.05	1,024,605.73	1,021,689.22
Total	119,095.63	119,190.03	595,333.14	595,950.15	1,429,663.35	1,427,906.60
Other Interest Charges						
Customers' Deposits	82,713.23	76,599.22	395,219.73	368,548.55	929,151.37	845,200.86
Federal Income Tax Deficiencies	-	-	(1,058,734.31)	902,151.00	383,125.68	902,151.00
Other Tax Deficiencies	-	-	1,791.71	213.87	1,791.71	769,385.87
Gas Refunds	475.76	-	2,378.80	-	4,757.60	-
Interest on Debt to Associated Companies	631,920.25	11,091.13	1,257,831.09	1,064,013.15	2,056,475.61	2,440,176.12
Other	-	-	7,942.11	-	7,942.11	-
Total	715,109.24	87,690.35	606,429.13	2,334,926.57	3,383,244.08	4,956,913.85
Total Interest	4,396,085.03	3,132,448.22	17,010,681.40	16,817,021.55	40,860,384.86	38,781,343.84

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF TAXES CHARGED
MAY 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,180,774.00	1,168,176.44	6,223,633.00	5,723,064.44
Unemployment	17,497.82	14,994.07	88,647.73	87,434.55
Federal Old Age and Survivors Insurance	530,826.46	625,037.88	2,554,980.08	2,705,081.16
Public Service Commission Fee	158,705.95	138,116.59	793,529.75	690,582.95
Federal Income	2,851,117.18	2,338,666.62	16,942,383.71	30,064,384.33
State Income	543,069.93	519,703.70	3,367,750.33	3,651,404.01
Miscellaneous	1,316.00	780.40	7,548.21	9,769.03
Total Charged to Operating Expense	5,283,307.34	4,805,475.70	29,978,472.81	42,931,720.47
Taxes Charged to Other Accounts	428,490.00	185,793.99	2,079.15	341,598.33
Taxes Accrued on Intercompany Accounts	(214,081.15)	(208,225.26)	(1,025,831.44)	(1,006,112.97)
Total Taxes Charged	5,497,716.19	4,783,044.43	28,954,720.52	42,267,205.83

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	13,925,969.24	6,256,433.00	13,969,018.72	6,213,383.52
State Unemployment	18,782.64	22,184.04	37,339.69	3,626.99
Federal Unemployment	29,205.50	29,748.64	52,334.22	6,619.92
Federal Old Age and Survivors	561,717.23	2,199,417.49	2,445,675.30	315,459.42
Federal Income	6,350,985.46	15,795,119.96	21,897,679.00	248,426.42
State Income	7,726,946.43	3,160,380.57	2,222,861.00	8,664,466.00
Kentucky Sales and Use Tax	10,878.70	1,421,982.51	1,172,595.37	260,265.84
Miscellaneous	0.37	69,454.31	69,454.68	(0.00)
Totals	28,624,485.57	28,954,720.52	41,866,957.98	15,712,248.11

LOUISVILLE GAS AND ELECTRIC COMPANY
SUMMARY OF UTILITY PLANT - UTILITY PLANT IN SERVICE
MAY 31, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFERS/ ADJUSTMENTS	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT IN SERVICE						
Electric						
Intangible	2,340.29	-	-	-	-	2,340.29
Steam Production	1,945,257,925.33	5,880,449.43	(1,459,035.00)	-	4,421,414.43	1,949,679,339.76
Hydro	17,884,886.35	66,269.19	-	-	66,269.19	17,951,155.54
Other Production	225,436,782.99	43,431.44	-	-	43,431.44	225,480,214.43
Transmission	240,067,695.28	11,789,670.77	(370,559.91)	(3,176.71)	11,415,934.15	251,483,629.43
Distribution	754,284,748.12	4,046,055.37	(2,336,834.97)	(60,096.92)	1,649,123.48	755,933,871.60
General	16,886,738.80	31,931.13	(269,001.14)	(24,567.12)	(261,637.13)	16,625,101.67
Total Electric	3,199,821,117.16	21,857,807.33	(4,435,431.02)	(87,840.75)	17,334,535.56	3,217,155,652.72
Gas						
Intangible	1,187.49	-	-	-	-	1,187.49
Natural Gas Storage Plant Underground	61,048,289.77	270,404.57	(63,177.02)	-	207,227.55	61,255,517.32
Transmission	12,894,091.35	7,816.74	-	-	7,816.74	12,901,908.09
Distribution	440,120,789.38	908,959.03	(27,203.55)	(289.37)	881,466.11	441,002,255.49
General	10,346,233.87	237,264.29	(1,555,319.73)	-	(1,318,055.44)	9,028,178.43
Gas Stored Underground Non-Current	2,139,990.00	-	-	-	-	2,139,990.00
Total Gas	526,550,581.86	1,424,444.63	(1,645,700.30)	(289.37)	(221,545.04)	526,329,036.82
Common						
Intangible	28,877,505.07	2,063,377.93	-	-	2,063,377.93	30,940,883.00
General	150,813,423.54	3,233,605.67	(1,586,995.32)	-	1,646,610.35	152,460,033.89
Total Common	179,690,928.61	5,296,983.60	(1,586,995.32)	-	3,709,988.28	183,400,916.89
Total Plant in Service	3,906,062,627.63	28,579,235.56	(7,668,126.64)	(88,130.12)	20,822,978.80	3,926,885,606.43
Construction Work In Progress						
Electric	154,377,558.86	20,456,143.18	-	-	20,456,143.18	174,833,702.04
Gas	54,810,960.24	8,768,130.93	-	-	8,768,130.93	63,579,091.17
Common	8,684,890.86	(561,499.24)	-	-	(561,499.24)	8,123,391.62
Total Construction Work In Progress	217,873,409.96	28,662,774.87	-	-	28,662,774.87	246,536,184.83
Total Utility Plant at Original Cost	4,123,936,037.59	57,242,010.43	(7,668,126.64)	(88,130.12)	49,485,753.67	4,173,421,791.26

LOUISVILLE GAS A :CTRIC COMPANY
SUMMARY OF UTILITY PLANT - RESERVE FOR DEPRECIATION OF UTILITY PLANT
MAY 31, 2007

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUALS	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Electric	(1,299,559,281.79)	(34,516,092.91)	4,435,431.02	-	-	-	-	(55,260.45)	(1,329,695,204.13)
Electric - ARO Steam	(2,049,614.55)	(63,391.90)	-	-	-	-	-	-	(2,113,006.45)
Electric - ARO Hydro	(15,828.80)	(700.74)	-	-	-	-	-	-	(16,529.54)
Electric - ARO Other Production	(108,105.20)	(4,761.66)	-	-	-	-	-	-	(112,866.86)
Electric - ARO Transmission	(2,165.47)	(68.22)	-	-	-	-	-	-	(2,233.69)
Electric - ARO Distribution	(12,001.89)	(152.35)	-	-	-	-	-	-	(12,154.24)
Gas	(148,577,916.87)	(4,338,800.07)	1,645,700.30	-	-	-	-	-	(151,271,016.64)
Gas - ARO Underground Storage	(392,040.25)	(3,784.70)	-	-	-	-	-	-	(395,824.95)
Gas - ARO Distribution	(19,101.73)	(53.35)	-	-	-	-	-	-	(19,155.08)
Common - ARO	(1,130.96)	(14.30)	-	-	-	-	-	-	(1,145.26)
Common	(62,084,425.21)	(3,209,148.99)	1,586,995.32	-	-	-	-	-	(63,706,578.88)
Total Life Reserves For Depreciation Of Utility Plant In Service	(1,512,821,612.72)	(42,136,969.19)	7,668,126.64	-	-	-	-	(55,260.45)	(1,547,345,715.72)
Salvage Reserves									
Steam Production	(46,966,253.01)	(2,380,149.61)	-	-	-	575,498.82	(245,427.65)	-	(49,016,331.45)
Hydro Production	(522,713.14)	-	-	-	-	-	-	-	(522,713.14)
Other Production	(2,093,564.72)	-	-	-	-	-	-	-	(2,093,564.72)
Transmission	(16,367,877.32)	(449,819.78)	-	-	-	362,749.38	-	-	(16,454,947.72)
Distribution	(132,166,536.49)	(2,528,263.65)	-	-	-	1,822,275.63	(7,261.41)	-	(132,879,785.92)
Distribution General	89,695.45	9,464.72	-	-	-	487.32	-	-	99,647.49
Gas Stored Underground	249,305.84	(94,199.06)	-	-	-	18,102.09	-	-	173,208.87
Gas Transmission	(2,644,672.08)	(43,303.57)	-	-	-	-	-	-	(2,687,975.65)
Gas Distribution	(47,306,815.37)	(1,773,583.48)	-	-	-	68,920.04	(751.34)	-	(49,012,230.15)
Gas General	148,519.46	17,038.28	-	-	-	-	-	-	165,557.74
Common	(354,458.62)	(24,034.93)	-	-	-	174,952.75	-	-	(203,540.80)
Total Salvage Reserves For Depreciation Of Utility Plant In Service	(247,935,370.00)	(7,266,851.08)	-	-	-	3,022,986.03	(253,440.40)	-	(252,432,675.45)
Total Reserves									
Electric	(1,499,774,246.93)	(39,933,936.10)	4,435,431.02	-	-	2,761,011.15	(252,689.06)	(55,260.45)	(1,532,819,690.37)
Gas	(198,542,721.00)	(6,236,685.95)	1,645,700.30	-	-	87,022.13	(751.34)	-	(203,047,435.86)
Common	(62,440,014.79)	(3,233,198.22)	1,586,995.32	-	-	174,952.75	-	-	(63,911,264.94)
Total Reserve For Depreciation Of Utility Plant In Service	(1,760,756,982.72)	(49,403,820.27)	7,668,126.64	-	-	3,022,986.03	(253,440.40)	(55,260.45)	(1,799,778,391.17)
Retirement Work In Progress									
108001									
Electric	3,768,496.16	-	-	(1,188,776.93)	(910,466.96)	(16,655.36)	497.82	37,101.83	1,690,196.56
Gas	(465,950.02)	-	-	620,863.56	(46,365.94)	17,914.15	-	-	126,461.75
Common	(502,243.45)	-	-	567,913.37	(24,751.64)	1,990.64	-	-	42,908.92
Total 108001 RWIP	2,800,302.69	-	-	-	(981,584.54)	3,249.43	497.82	37,101.83	1,859,567.23
108901									
Electric	8,273,600.70	-	-	6,168,329.70	(1,556,837.79)	(8,028,675.01)	(187,047.88)	(336,992.17)	4,332,377.55
Gas	3,107,219.25	-	-	178,064.68	(21,589.07)	287,672.86	-	-	3,551,367.72
Common	(4,637,184.09)	-	-	(5,698,720.60)	(154,273.78)	10,141,758.77	2,800.00	-	(345,619.70)
Total 108901 RWIP	6,743,635.86	-	-	647,673.78	(1,732,700.64)	2,400,756.62	(184,247.88)	(336,992.17)	7,538,125.57
Total RWIP	9,543,938.55	-	-	647,673.78	(2,714,285.18)	2,404,006.05	(183,750.06)	(299,890.34)	9,397,692.80
YTD Activity	(1,751,213,044.17)	(49,403,820.27)	7,668,126.64	647,673.78	(2,714,285.18)	5,426,992.08	(437,190.46)	(355,150.79)	(1,790,380,698.37)
Amortization									
Electric	(100.00)	-	-	-	-	-	-	-	(100.00)
Gas	(800.00)	-	-	-	-	-	-	-	(800.00)
Common	(15,376,657.84)	(2,643,533.83)	-	-	-	-	-	-	(18,020,191.67)
Total Reserve For Amortization Of Utility Plant In Service	(15,377,557.84)	(2,643,533.83)	-	-	-	-	-	-	(18,021,091.67)
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,766,590,602.01)	(52,047,354.10)	7,668,126.64	647,673.78	(2,714,285.18)	5,426,992.08	(437,190.46)	(355,150.79)	(1,808,401,790.04)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,357,345,435.58								2,365,020,001.22

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

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

Description of Filing Requirement:

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

Response:

The below-listed documents are provided. Please note that Securities and Exchange Commission (SEC) periodic reports, including Form 10-K, Form 10-Q and Form 8-K are provided through spring 2007 when LG&E terminated its status as an SEC registrant and ceased filing periodic reports under the Securities and Exchange Act of 1934. LG&E's deregistration was effective on April 27, 2007. LG&E's deregistration occurred in connection with a restructuring transaction to refinance various issuances of secured debt for the purpose of converting them to unsecured debt, which restructuring transaction and the SEC deregistration, were considered by the Kentucky Commission in Case No. 2006-00445 and discussed in the order dated January 31, 2007.

- 2007 Annual Financial Statements and Additional Information
- 2006 SEC Form 10 - K
- 2008 1st Quarter Financial Statements and Additional Information
- 2007 3rd Quarter Financial Statements and Additional Information
- 2007 2nd Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

- 2007 1st Quarter Financial Statements and Additional Information
- SEC Form 10-Q – September 30, 2006
- SEC Form 10-Q – June 30, 2006
- SEC Form 8-K – April 18, 2007
- SEC Form 8-K – April 11, 2007
- SEC Form 8-K – March 14, 2007
- SEC Form 8-K – October 13, 2006
- SEC Form 8-K – July 7,2006
- Report of Certain Material Changes - January 2008 – July 2008
- Report of Certain Material Changes – June 2007 – December 2007

2007 - Annual Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information

As of December 31, 2007 and 2006

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INDEX OF ABBREVIATIONS

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

Business

GENERAL

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E supplies natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

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

OPERATING REVENUES

For the year ended December 31, 2007, 73% of total operating revenues were derived from electric operations and 27% from natural gas operations. Electric and gas operating revenues and the percentages by class of service on a combined basis for this period were as follows:

(in millions)	Electric	Gas	Combined	% Combined
Residential	$309	$218	$ 527	41%
Industrial & Commercial	382	101	483	38%
Other Retail	75	15	90	7%
Wholesale	167	19	186	14%
Total	$933	$353	$1,286	100%

See Note 11 of Notes to Financial Statements for financial information concerning segments of business for the two years ended December 31, 2007 and 2006.

ELECTRIC OPERATIONS

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

	2007		2006	
	Revenues (millions)	Volumes (000 Mwh)	Revenues (millions)	Volumes (000 Mwh)
Residential	$309	4,486	$272	4,018
Industrial & Commercial	382	6,830	361	6,682
Other Retail	75	1,342	69	1,265
Wholesale	167	6,186	241	7,621
Total	$933	18,844	$943	19,586

LG&E set a new record peak load of 2,834 Mw on August 16, 2007, when the temperature reached 105 degrees Fahrenheit in Louisville.

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

	Summer Capability Rating (Mw)
Steam Stations:	
Mill Creek – Jefferson County, KY	1,472
Cane Run – Jefferson County, KY	563
Trimble County – Trimble County, KY (a)	383
Total Steam Stations	2,418
Ohio Falls Hydroelectric Station – Jefferson County, KY	50
CT Generators (Peaking capability):	
Zorn – Jefferson County, KY	14
Paddy's Run – Jefferson County, KY (c)	119
Cane Run – Jefferson County, KY	14
Waterside – Jefferson County, KY (b)	-
E.W. Brown – Mercer County, KY (c)	190
Trimble County – Trimble County, KY (c)	328
Total CT Generators	665
Total Capability Rating	3,133

(a) Amount shown represents LG&E's 75% interest. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.
(b) Pursuant to the Definitive Property Sale Agreement entered into with the Louisville Arena Authority in 2006, the Waterside property will be sold to the Louisville Arena Authority when the relocation of the LG&E assets has been completed, which is expected to occur by the end of 2008. The Waterside units were retired in December 2006.
(c) Some of these units are jointly owned with KU. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.

At December 31, 2007, LG&E's electric transmission system included 41 substations (27 of which are shared with the distribution system) with a total capacity of approximately 11,900 MVA and approximately 894 miles of lines. The electric distribution system included 93 substations (27 of which are shared with the transmission system) with a total capacity of approximately 4,940 MVA, 3,927 miles of overhead lines and 2,261 miles of underground conduit.

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

GAS OPERATIONS

The sources of LG&E's natural gas operating revenues and the sales volumes for the two years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	Revenues (millions)	Volumes (000 Mcf)	Revenues (millions)	Volumes (000 Mcf)
Residential	$218	19,811	$248	17,816
Industrial & Commercial	101	10,182	119	9,621
Other Retail	15	1,553	19	1,499
Wholesale	19	13,575	9	12,149
Total	$353	45,121	$395	41,085

LG&E's natural gas transmission system includes 256 miles of transmission mains and the natural gas distribution system includes 4,203 miles of distribution mains.

The natural gas utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. LG&E gas billings include a Weather Normalization Adjustment ("WNA") mechanism which adjusts the distribution cost component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of above- or below-normal weather on residential and commercial revenues. In October 2006, the Kentucky Commission approved LG&E's request to extend the current WNA mechanism through April 30, 2009.

LG&E has five underground natural gas storage fields, with a current working gas capacity of approximately 15 million Mcf, that help provide economical and reliable natural gas service to ultimate consumers. By using natural gas storage facilities, LG&E avoids the costs associated with typically more expensive pipeline transportation capacity to serve peak winter space-heating loads. LG&E stores natural gas in the summer season for withdrawal in the subsequent winter heating season. Without its storage capacity, LG&E would be forced to buy additional natural gas and pipeline transportation services during the winter months when customer demand increases and when the prices for natural gas supply and transportation services are typically at their highest. Currently, LG&E buys competitively priced natural gas from several suppliers under contracts of varying duration. LG&E's underground storage facilities, in combination with its purchasing practices, enable it to offer natural gas sales service at competitive rates. At December 31, 2007, LG&E had an inventory balance of natural gas stored underground of 11 million Mcf of working natural gas valued at $81 million.

A number of large commercial and industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through LG&E's distribution system. These large commercial and industrial customers account for approximately one-fourth of LG&E's annual throughput.

The estimated maximum deliverability from storage during the early part of the heating season is expected to be in excess of 350,000 Mcf/day. Under mid-winter design conditions, LG&E expects to be able to withdraw about 300,000 Mcf/day from its storage facilities. The deliverability of natural gas from LG&E's storage facilities decreases as storage inventory levels are reduced by seasonal withdrawals.

During 2007, the maximum daily gas sendout was approximately 442,000 Mcf, occurring on February 5, 2007, when the average temperature for the day in Louisville was 14 degrees Fahrenheit. Supply on that day consisted of approximately 174,000 Mcf from pipeline deliveries, approximately 192,000 Mcf delivered from underground storage and approximately 76,000 Mcf transported for large commercial and industrial customers.

RATES AND REGULATIONS

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

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

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

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

COAL SUPPLY

Coal-fired generating units provided approximately 97% of LG&E's net Kwh generation for 2007. The remaining net generation for 2007 was provided by natural gas and oil fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by LG&E in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. LG&E has no nuclear generating units and has no plans to build any in the foreseeable future.

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

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

LG&E expects to continue purchasing most of its coal, which has sulfur content in the 2.0% - 3.5% range, from western Kentucky, southern Indiana, southern Illinois, Ohio and West Virginia for the foreseeable future. This supply, in combination with the Company's SO_2 removal systems, is expected to enable LG&E to continue to provide electric service in compliance with existing environmental laws and regulations. Coal is delivered to LG&E's generating stations by a mix of transportation modes including rail and barge.

GAS SUPPLY

LG&E purchases natural gas supplies from multiple sources under contracts for varying periods of time, while transportation services are purchased from Texas Gas and Tennessee Gas.

LG&E currently transports natural gas on the Texas Gas system under Rate Schedules NNS and FT service. LG&E's total winter season NNS capacity is 184,900 MMBtu/day and its total summer season NNS capacity is 60,000 MMBtu/day. There are three separate NNS agreements with Texas Gas which are subject to termination by LG&E in equal amounts during 2010, 2011 and 2013. LG&E's total winter and summer season FT capacity is 28,000 MMBtu/day. One of the FT agreements with Texas Gas is for 10,000 MMBtu/day (winter and summer seasons) and is subject to termination by LG&E during 2011. The other FT agreement with Texas Gas is for 18,000 MMBtu/day (winter and summer seasons) and has been terminated effective November 1, 2008. Commencing November 1, 2008, LG&E has contracted for transportation service with Texas Gas under Rate Schedule Short-Term Firm with a winter season capacity of 100 MMBtu/day and a summer season capacity of 18,000 MMBtu/day. This new Short-Term Firm agreement is subject to termination by LG&E during 2013. LG&E also transports on the Tennessee Gas system under Tennessee Gas' Rate Schedule FT-A. LG&E's contract capacity with Tennessee Gas is 51,000 MMBtu/day throughout the year (winter and summer seasons). The FT-A agreement with Tennessee Gas expires during 2012.

LG&E participates in rate and other proceedings affecting the regulated interstate natural gas pipelines that provide it service. Both Texas Gas and Tennessee Gas have active proceedings at the FERC in which LG&E is participating. However, neither pipeline is billing charges subject to refund, and neither currently has rate case proceedings before the FERC that would change the pipeline's base transportation rates under which LG&E receives service.

LG&E also has a portfolio of supply arrangements of various terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. These natural gas supplies, in tandem with pipeline transportation services, provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

For further discussion of wholesale natural gas prices, see Note 2 of Notes to Financial Statements.

ENVIRONMENTAL MATTERS

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

COMPETITION

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

EMPLOYEES AND LABOR RELATIONS

LG&E had 944 full-time regular employees at December 31, 2007, 655 of which were operating, maintenance and construction employees represented by the IBEW Local 2100. LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement in November 2005. The new agreement provides for negotiated increases or changes to wages and annual benefits re-openers. Benefits re-openers were negotiated in November 2006 and November 2007.

OFFICERS OF THE COMPANY

At December 31, 2007: **

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

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

Risk Factors

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

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

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

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

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

LG&E's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions.

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

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

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

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

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

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

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

Legal Proceedings

Rates and Regulatory Matters

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

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent or potential regulations; items regarding other emissions proceedings and the manufactured gas plant sites; global warming or climate change matters and other environmental items affecting LG&E, see Note 9 of Notes to Financial Statements.

Litigation

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

Other

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

Selected Financial Data

(in millions)	Years Ended December 31				
	2007	2006	2005	2004	2003
Operating revenues	$1,286	$1,338	$1,424	$1,173	$1,094
Net operating income	$ 230	$ 223	$ 230	$ 185	$ 179
Net income	$ 120	$ 117	$ 129	$ 96	$ 91
Total assets	$3,313	$3,184	$3,146	$2,967	$2,882
Long-term obligations (including amounts due within one year)	$ 984	$ 820	$ 821	$ 872	$ 798

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

Management's Discussion and Analysis

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

Forward Looking Statements

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

RESULTS OF OPERATIONS

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

Net Income

Net income related to the electric business increased $5 million and net income related to the natural gas business decreased $2 million in 2007 compared to 2006, resulting in an overall $3 million net income increase. Increased retail sales volumes associated with warmer summer weather and cooler winter weather and increased natural gas wholesale sales resulted in an increase in net income. Lower electric wholesale sales and lower MISO related revenues partially offset this increase.

Revenues

Electric revenues in 2007 decreased $10 million primarily due to:

- Decreased wholesale sales ($66 million) due to decreased volumes and lower wholesale market pricing
- Decreased MISO related revenues ($8 million) resulting from the exit from the MISO

These decreases were partially offset by:

- Increased fuel costs ($35 million) billed to customers through the FAC due to increased fuel prices and sales volumes delivered
- Increased sales volumes delivered ($19 million) resulting from a 3% increase in heating degree days and a 51% increase in cooling degree days
- Increased ECR surcharge ($9 million) due to increased recoverable capital spending

Natural gas revenues in 2007 decreased $42 million primarily due to a decrease in the average cost of gas billed to customers throughout the year ($71 million), partially offset by increased volumes ($19 million) and increased wholesale sales ($10 million).

Expenses

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

Fuel for electric generation increased $24 million in 2007 primarily due to:
- Increased cost of fuel burned ($17 million) due to higher coal prices
- Increased generation ($7 million) due to higher demand

Power purchased expense decreased $32 million in 2007 primarily due to:
- Decreased volumes purchased ($33 million) due to increased internal generation
- Increased cost per Mwh of purchases ($2 million) due to higher fuel prices

Gas supply expenses decreased $41 million in 2007 primarily due to:
- Decreased cost of net gas supply ($77 million) due to lower inventory unit cost and adjustments to the GSC for recoveries
- Increased volumes of natural gas delivered to the distribution system ($36 million) due to higher demand

Other operation and maintenance expenses decreased $12 million in 2007 primarily due to decreased other operation expenses ($17 million), partially offset by increased maintenance expenses ($4 million).

Other operation expenses decreased $17 million in 2007 primarily due to:
- Decreased VDT workforce reduction expense ($8 million) due to completion of VDT amortization in March 2006
- Decreased MISO Day 1 and Day 2 expense ($8 million) due to the exit from the MISO effective September 1, 2006, and refunds from the MISO for certain charges
- Decreased steam expense ($5 million) due to lower lease expense
- Decreased pension expense ($3 million) due to a pension contribution early in 2007
- Decreased write-offs of uncollectible accounts ($3 million) primarily due to lower gas prices in 2007 as compared with prices in the first quarter of 2006
- Increased wholesale expense ($6 million) due to a recorded credit in April 2006 for a FERC ordered refund from the MISO for charges assessed in excess of the rates in the MISO transmission tariff
- Increased scrubber reactant expense ($2 million) due to a higher priced lime contract in 2007

Maintenance expenses increased $4 million in 2007 primarily due to:
- Increased boiler maintenance expense ($3 million)
- Increased gas main distribution maintenance and other maintenance services ($2 million)
- Decreased overhead conductor and devices maintenance ($1 million)

Other expense – net decreased $2 million in 2007 primarily due to increased other income ($1 million) and decreased other expense ($1 million).

Interest expense increased $9 million in 2007 primarily due to increased interest to affiliated companies ($8 million) due to increased affiliate borrowings to fund the pension plan and redeem the Company's preferred stock and increased interest rates on variable rate debt ($1 million).

CRITICAL ACCOUNTING POLICIES/ESTIMATES

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

As of December 31, 2007, LG&E is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $120 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Credit facilities totaling $125 million are in place to fund such tenders, if necessary. LG&E has never needed to access these facilities. LG&E expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $138 million and $320 million in 2007 and 2006, respectively.

The 2007 decrease of $182 million was primarily the result of decreases in cash due to changes in:

- Accounts receivable ($88 million) due to higher GSC and FAC billings in December 2007, related to higher year end coal and gas prices
- Materials and supplies ($48 million) due to higher coal inventory at December 31, 2007 resulting from higher coal prices as well as greater volumes on hand
- GSC recovery ($40 million) due to refunds of over recoveries
- Pension and postretirement funding ($26 million)
- Accrued income taxes ($22 million) due to estimated payments during 2007 being greater than income tax accrued
- Property and other taxes payable ($17 million)
- Prepaid pension asset ($14 million)

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

- Accounts payable ($33 million)
- Earnings, net of non-cash items ($13 million)
- MISO exit fee ($13 million) due to the MISO exit being completed effective September 1, 2006
- ECR recovery ($13 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities in 2007 increased $50 million in 2007 compared to 2006, primarily due to increased capital expenditures of $48 million and $2 million in restricted cash. Restricted cash primarily relates to cash received as a prepayment for equipment on order for the Louisville Arena project.

Financing Activities

Net cash inflows (outflows) for financing activities were $56 million and ($173) million in 2007 and 2006, respectively. See Note 7 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E expects its capital expenditures for the three-year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million and on-going construction related to generation and distribution assets. See Note 9 of Notes to Financial Statements for additional information.

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

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings as of December 31, 2007, were:

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

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

Contractual Obligations

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

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2008	2009	2010	2011	2012	Thereafter	Total
Short-term debt (a)	$ 78	$ -	$ -	$ -	$ -	$ -	$ 78
Long-term debt	-	-	-	-	25	959 (b)	984
Operating leases (c)	5	4	4	3	3	5	24
Unconditional power purchase obligations (d)	16	18	19	19	19	322	413
Coal and gas purchase obligations (e)	245	197	200	212	67	5	926
Retirement obligations (f)	35	35	34	34	33	167	338
Other obligations (g)	75	26	3	-	-	-	104
Total contractual cash obligations	$ 454	$ 280	$ 260	$ 268	$ 147	$ 1,458	$ 2,867

(a) Represents borrowings from affiliated company due within one year
(b) Includes long-term debt of $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008
(c) Represents future operating lease payments.
(d) Represents future minimum payments under OVEC power purchase agreements through 2026.
(e) Represents contracts to purchase coal and natural gas.
(f) Represents currently projected cash flows for pension, postretirement and other post-employment benefits as calculated by the actuary.
(g) Represents construction commitments, including commitments for TC2

CONTROLS AND PROCEDURES

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO"). The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

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

Louisville Gas and Electric Company
Statements of Income
(Millions of $)

	Years Ended December 31 2007	2006
OPERATING REVENUES:		
Electric (Note 12)	$ 933	$ 943
Gas	353	395
Total operating revenues	1,286	1,338
OPERATING EXPENSES:		
Fuel for electric generation	318	294
Power purchased (Notes 9 and 12)	82	114
Gas supply expenses	254	295
Other operation and maintenance expenses	276	288
Depreciation and amortization (Note 1)	126	124
Total operating expenses	1,056	1,115
Net operating income	230	223
Other expense - net	1	3
Interest expense (Notes 7 and 8)	29	28
Interest expense to affiliated companies (Note 12)	21	13
Income before income taxes	179	179
Federal and state income taxes (Note 6)	59	62
Net income	$ 120	$ 117

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31 2007	2006
Balance January 1	$639	$621
Add net income	120	117
Preferred stock buyback	(4)	-
	755	738
Deduct: Cash dividends declared on stock:		
5% cumulative preferred	-	1
Auction rate cumulative preferred	-	3
Common	65	95
	65	99
Balance December 31	$690	$639

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Millions of $)

	Years Ended December 31	
	2007	2006
Net income	$120	$117
Gain (loss) on derivative instruments and hedging activities, net of tax benefit (expense) of $2 and $(1) for 2007 and 2006, respectively (Notes 1 and 3)	(4)	2
Additional minimum pension liability adjustment, net of tax expense of $0 and $30 for 2007 and 2006, respectively (Note 5)	-	47
Other comprehensive income (loss), net of tax (Note 13)	(4)	49
Comprehensive income	$116	$166

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

Louisville Gas and Electric Company
Balance Sheets
(Millions of $)

	December 31 2007	December 31 2006
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 4	$ 7
Restricted cash (Note 1)	7	-
Accounts receivable - less reserve of $2 in 2007 and 2006 (Note 1)	189	165
Accounts receivable from affiliated companies (Note 12)	-	19
Materials and supplies (Note 1):		
Fuel (predominantly coal)	46	38
Gas stored underground	81	83
Other materials and supplies	31	30
Prepayments and other current assets	13	9
Total current assets	371	351
Utility plant, at original cost (Note 1):		
Electric	3,246	3,200
Gas	551	526
Common	178	180
Total utility plant, at original cost	3,975	3,906
Less: reserve for depreciation	1,619	1,534
Total utility plant, net	2,356	2,372
Construction work in progress	344	217
Total utility plant and construction work in progress	2,700	2,589
Deferred debits and other assets:		
Restricted cash (Note 1)	12	16
Prepaid pension assets	14	-
Regulatory assets (Notes 1 and 2):		
Pension and postretirement benefits	110	126
Other	94	93
Other assets	12	9
Total deferred debits and other assets	242	244
Total Assets	$3,313	$3,184

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

Louisville Gas and Electric Company
Balance Sheets (continued)
(Millions of $)

	December 31 2007	2006
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long term debt (Note 7)	$ 120	$ 248
Notes payable to affiliated companies (Notes 8 and 12)	78	68
Accounts payable	111	103
Accounts payable to affiliated companies (Note 12)	57	55
Customer deposits	19	18
Other current liabilities	34	40
Total current liabilities	419	532
Long-term debt:		
Long-term bonds (Note 7)	454	328
Long-term notes to affiliated company (Note 7)	410	225
Mandatorily redeemable preferred stock (Note 7)	-	19
Total long-term debt	864	572
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	342	333
Accumulated provision for pensions and related benefits (Note 5)	94	149
Investment tax credit, in process of amortization	46	41
Asset retirement obligations	30	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	241	232
Deferred income taxes	50	54
Other regulatory liabilities	19	35
Other liabilities	47	44
Total deferred credits and other liabilities	869	916
Commitments and contingencies (Note 9)		
Cumulative preferred stock	-	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital (Note 12)	60	40
Accumulated other comprehensive income (Note 13)	(13)	(9)
Retained earnings	690	639
Total common equity	1,161	1,094
Total Liabilities and Equity	$3,313	$3,184

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 120	$ 117
Items not requiring cash currently:		
Depreciation and amortization	126	124
Deferred income taxes - net	9	22
Investment tax credit - net	5	(1)
VDT amortization	-	8
Provision for pension and postretirement plans	16	(13)
Other	(3)	3
Change in certain current assets and liabilities:		
Accounts receivable	(5)	83
Materials and supplies	(7)	41
Accounts payable	(14)	(47)
Accrued income taxes	(14)	8
Property and other taxes payable	(3)	14
Prepayments and other current assets	(4)	-
Prepaid pension asset	(14)	-
Other current liabilities	7	2
Pension and postretirement funding	(55)	(29)
Gas supply clause receivable, net	(23)	17
Fuel adjustment clause receivable, net	(5)	(4)
MISO exit fee	-	(13)
Environmental cost recovery mechanism receivable	6	(7)
Other	(4)	(5)
Net cash provided by operating activities	138	320
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(194)	(146)
Change in restricted cash	(3)	(1)
Net cash used for investing activities	(197)	(147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 7)	185	-
Short-term borrowings from affiliated company (Note 8)	134	700
Repayment of short-term borrowings from affiliated company	(124)	(773)
Retirement of first mortgage bonds	(126)	-
Issuance of pollution control bonds	126	-
Retirement of cumulative preferred stock	(70)	-
Retirement of mandatorily redeemable preferred stock	(20)	(1)
Preferred stock buyback adjustment	(4)	-
Payment of dividends	(65)	(99)
Additional paid-in capital	20	-
Net cash provided by (used for) financing activities	56	(173)
Change in cash and cash equivalents	(3)	-
Cash and cash equivalents at beginning of year	7	7
Cash and cash equivalents at end of year	$ 4	$ 7
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$62	$64
Interest on borrowed money	24	24
Interest to affiliated companies on borrowed money	15	11

The accompanying notes are an integral part of these financial statements

Louisville Gas and Electric Company
Statements of Capitalization
(Millions of $)

	December 31 2007	December 31 2006
LONG-TERM DEBT (Note 7):		
Pollution control series:		
S due September 1, 2017, variable %	$ -	$ 31
T due September 1, 2017, variable %	-	60
U due August 15, 2013, variable %	-	35
Jefferson Co. 2000 Series A, due May 1, 2027, variable %	25	25
Trimble Co. 2000 Series A, due August 1, 2030, variable %	83	83
Jefferson Co. 2001 Series A environmental facilities bonds, due September 1, 2027, variable %	10	10
Jefferson Co. 2001 Series A pollution control bonds, due September 1, 2026, variable %	23	23
Trimble Co. 2001 Series A, due September 1, 2026, variable %	28	28
Jefferson Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2002 Series A, due October 1, 2032, variable %	42	42
Louisville Metro 2003 Series A, due October 1, 2033, variable %	128	128
Louisville Metro 2005 Series A, due February 1, 2035, variable %	40	40
Trimble Co. 2007 Series A, due June 1, 2033, 4.60%	60	-
Louisville Metro 2007 Series B, due June 1, 2033, variable %	35	-
Louisville Metro 2007 Series A, due June 1, 2033, variable %	31	-
Notes payable to Fidelia:		
Due January 16, 2012, 4.33%, unsecured	25	25
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, unsecured	100	100
Due November 26, 2022, 5.72%, unsecured	47	-
Due April 13, 2031, 5.93%, unsecured	67	-
Due April 13, 2037, 5.98 %, unsecured	70	-
Mandatorily redeemable preferred stock:		
$5.875 series, outstanding shares of 0 in 2007 and 200,000 in 2006	-	20
Total long-term debt outstanding	984	820
Less current portion of long-term debt	120	248
Long-term debt	864	572
CUMULATIVE PREFERRED STOCK:		
$25 par value, 1,720,000 shares authorized – 5% series, outstanding shares of 0 in 2007 and 860,287 in 2006	-	21
Without par value, 6,750,000 shares authorized –auction rate, outstanding shares of 0 in 2007 and 500,000 in 2006	-	49
	-	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital (Note 12)	60	40
Accumulated other comprehensive income (Note 13)	(13)	(9)
Retained earnings	690	639
Total common equity	1,161	1,094
Total capitalization	$2,025	$1,736

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

Note 1 - Summary of Significant Accounting Policies

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E supplies natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs.

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

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

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

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

Restricted Cash. A deposit in the amount of $12 million, used as collateral for an $83 million interest rate swap expiring in 2020, is classified as restricted cash on LG&E's balance sheet. An advance deposit of $7 million from the Louisville Arena Authority is also restricted for equipment purchases related to relocating transmission facilities.

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

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by LG&E. At December 31, 2007 and 2006, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments on the balance sheets consists of LG&E's investment in OVEC and non-utility plant. LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual agreements, LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

As of December 31, 2007 and 2006, LG&E's investment in OVEC totaled less than $1 million. LG&E is not the primary beneficiary of OVEC; therefore, it is not consolidated into the financial statements of LG&E and is accounted for under the cost method of accounting. LG&E's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, LG&E anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding LG&E's ownership interest and power purchase rights.

Utility Plant. LG&E's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. LG&E has not recorded any allowance for funds used during construction, in accordance with Kentucky Commission regulations.

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

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2007 (3.0% electric, 2.8% gas and 7.7% common); and 3.2% in 2006 (3.0% electric, 2.9% gas and 7.8% common) of average depreciable plant. Of the amount provided for depreciation, at December 31, 2007, approximately 0.4% electric, 0.8% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation, at December 31, 2006, approximately 0.4% electric, 0.9% gas and 0.4% common were related to the retirement, removal and disposal costs of long lived assets.

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

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

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

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

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. LG&E accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were $65 million and $53 million at December 31, 2007 and 2006, respectively.

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

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

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting LG&E:

SFAS No. 160

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

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

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

FIN 48

In July 2006, the FASB issued FIN 48 which clarifies the accounting for the uncertainty of income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position is measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows was not material.

Note 2 - Rates and Regulatory Matters

LG&E is subject to the jurisdiction of the Kentucky Commission and the FERC in virtually all matters related to electric and gas utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its competitive position in the marketplace and the status of regulation in Kentucky, LG&E has no plans or intentions to discontinue its application of SFAS No. 71.

Electric and Gas Rate Cases

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. The revenue increases requested were $64 million for electric and $19 million for natural gas. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's electric base rates of approximately $43 million (8%) and natural gas base rates of approximately $12 million (3%). The rate increases took effect on July 1, 2004.

Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

Regulatory Assets and Liabilities

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

(in millions)	2007	2006
ARO	$ 24	$ 22
GSC adjustments	16	21
MISO exit	13	13
FAC	9	4
Unamortized loss on bonds	19	20
ECR	4	9
Other	9	4
Subtotal	94	93
Pension and postretirement benefits	110	126
Total regulatory assets	$ 204	$ 219
Accumulated cost of removal of utility plant	$ 241	$ 232
Deferred income taxes - net	50	54
GSC adjustments	10	31
Other	9	4
Total regulatory liabilities	$ 310	$ 321

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E will seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include VDT costs, the merger surcredit, gas performance based ratemaking and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

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

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Accumulated Cost of Removal
As of December 31, 2005	$ 4	$ (27)	$ 20	$ 3
ARO accretion	-	(1)	2	-
As of December 31, 2006	4	(28)	22	3
ARO accretion	-	(2)	2	-
Removal cost incurred	-	1	-	-
As of December 31, 2007	$ 4	$ (29)	$ 24	$ 3

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2007 and 2006 for the ARO accretion and depreciation expense. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2007. FIN 47 net asset additions during 2006 were less than $1 million. For the years ended December 31, 2007 and 2006, LG&E recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

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

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

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2007, LG&E achieved $10 million in savings. Of that total savings amount, LG&E's portion was approximately $2 million and the ratepayers' portion was approximately $8 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with ratepayers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with ratepayers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

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

LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, LG&E provided notice to the MISO of its disagreement with the calculation of the exit fee. LG&E and the MISO have resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

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

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

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. Data discovery is ongoing and a public hearing is scheduled in March 2008.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period of November 1, 2006 through April 30, 2007. Data discovery has concluded and a public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

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

In July 2006, the Kentucky Commission initiated a six-month review of the FAC for LG&E for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006, approving the charges and credits billed through the FAC during the review period.

In January 2003, the Kentucky Commission reviewed KU's FAC and, as part of the Order in that case, required that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by

LG&E with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that LG&E fully complied with all audit recommendations and that no further reports are required.

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

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

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. Data discovery concluded in December 2007, and all parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The case is submitted for decision and an order is anticipated in the second quarter of 2008.

In June 2006, LG&E filed an application to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2008 through 2010 is approximately $40 million, of which approximately $30 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006, approving all expenditures and investments as submitted.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge for six-month periods ending October 2003, April 2004, October 2004, October 2005 and April 2006, and for the two-year period ending April 2005. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E to set up a regulatory asset of $141 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program, which thereby decreased the charge to the regulatory asset from $144 million to $141 million. The Order reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of savings as stipulated by LG&E, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreements in the electric and natural gas rate cases, in September 2005, LG&E filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and LG&E reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E files for a change in electric or natural gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, LG&E estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by LG&E over a five-year period. In that same order, the Kentucky Commission required LG&E, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. LG&E submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. According to the Order, LG&E's merger surcredit would remain in place for another five-year term beginning July 1, 2003, the merger savings would continue to be shared 50% with ratepayers and 50% with shareholders and LG&E would file a plan for the merger surcredit six months before its expiration.

In December 2007, LG&E submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission has not issued a procedural schedule for this proceeding.

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

Accumulated Cost of Removal of Utility Plant. As of December 31, 2007 and 2006, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of $241 million and $232 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, LG&E has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

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

In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs.

The total annual budget for these programs is approximately $26 million, an increase over the existing annual budget of approximately $10 million. Data discovery concluded in November 2007, and the Community Action Council ("CAC") for Lexington-Fayette, Bourbon, Harrison and Nicholas counties and the Kentucky Association for Community Action ("KACA"), filed a motion for hearing. In January 2008, the CAC and KACA filed a motion with the Kentucky Commission to withdraw the request because the parties reached a settlement. The Kentucky Commission is allowing the current tariffs to remain in effect until a final order is issued.

Other Regulatory Matters

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

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the contracts will occur through 2008.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly owned by LG&E and KU, was approved by the Kentucky Commission in November 2005, and initial CCN applications for three transmission lines were approved in September 2005 and May 2006. In August 2006, LG&E obtained dismissal of a judicial review of such CCN approvals by certain property owners. In December 2007, the Kentucky Court of Appeals reversed and remanded the lower Court's dismissal. Both parties have filed for reconsideration of elements of the appellate court's ruling. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. See Note 9, Commitments and Contingencies, for further discussion regarding the TC2 air permit.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting LG&E's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big River Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, LG&E must comply with applicable affiliate restrictions set forth in FERC's regulation.

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and its subsidiaries, including LG&E, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and its subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and its subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Mandatory Reliability Standards. As a result of EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various regional reliability organizations ("RRO") by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. The SERC is currently assessing LG&E's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards. While LG&E believes itself to be in substantial compliance with the mandatory reliability standards generally, LG&E cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, LG&E and KU filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006. LG&E and KU will submit the next joint triennial filing in April 2008.

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

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

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E for implementation within approximately eight months. LG&E will notify the Kentucky Commission 10 days prior to the actual implementation date and will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

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

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $45 million from 2008 to 2010.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field, which extends into Indiana. The review related, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions were required or advisable. During March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. In July 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status for retail gas activities. This corrective event places these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

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

Home Energy Assistance Program. In July 2007, LG&E filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved LG&E's new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008. No procedural schedule has been established.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission requesting a change in the depreciation rates as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Note 3 - Financial Instruments

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

	2007		2006	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Preferred stock subject to mandatory redemption (including current portion of $1 million)	$ -	$ -	$ 20	$ 20
Long-term debt (including current portion of $120 million)	$574	$571	$574	$574
Long-term debt from affiliate	$410	$438	$225	$222
Interest-rate swaps - liability	$ 21	$ 21	$ 15	$ 15

All of the above valuations reflect prices quoted by exchanges except for the swaps and loans from affiliate. The fair values of the swaps reflect price quotes from dealers. The loans from affiliate are fair valued using accepted valuation models. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. See Note 13, Accumulated Other Comprehensive Income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of December 31, 2007 and 2006. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on the London Interbank Offer Rate or the Securities Industry and Financial Markets Association's municipal swap index averaging 3.5% and 3.75% at December 31, 2007 and 2006, respectively. The swap agreements in effect at December 31, 2007 have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be highly effective resulting in a pre-tax loss of $6 million for 2007 and a pre-tax gain of $3 million for 2006, recorded in other comprehensive income. Amounts in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $12 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheets. The amount of the deposit required is tied to the market value of the swap.

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

The table below summarizes LG&E's energy trading and risk management activities:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Unrealized gains and losses recognized at contract inception during the period	-	-
Realized gains and losses recognized during the period	(5)	16
Changes in fair values attributable to changes in valuation techniques and assumptions	4	(17)
Other unrealized gains and losses and changes in fair values	-	1
Fair value of contracts at end of period, net asset	$ -	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2007, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

LG&E hedges the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts for periods of less than one year. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income in other expense - net. Pre-tax losses of $5 million resulted in 2007. Pre-tax gains of $16 million resulted in 2006.

Note 4 - Concentrations of Credit and Other Risk

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

LG&E's customer receivables and natural gas and electric revenues arise from deliveries of natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2007, 73% of total revenue was derived from electric operations and 27% from natural gas operations. For the year ended December 31, 2006, 70% of total revenue was derived from electric operations and 30% from natural gas operations.

Effective November 2005, LG&E and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages and annual benefits re-openers. Benefits re-openers were negotiated in November 2006, and November 2007. The employees represented by this bargaining agreement comprise approximately 69% of LG&E's workforce at December 31, 2007.

Note 5 - Pension and Other Postretirement Benefit Plans

LG&E has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. LG&E uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2007, and a statement of the funded status as of December 31 for LG&E's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	$ 408	$ 427	$ 105	$ 106
Service cost	4	4	1	1
Interest cost	24	23	5	6
Plan amendments	19	4	2	-
Benefits paid, net of retiree contributions	(28)	(29)	(9)	(8)
Actuarial gain and other	(19)	(21)	(15)	-
Benefit obligation at end of year	$ 408	$ 408	$ 89	$ 105
Change in plan assets				
Fair value of plan assets at beginning of year	$ 356	$ 333	$ 6	$ 3
Actual return on plan assets	26	36	1	-
Employer contributions	56	18	7	11
Benefits paid, net of retiree contributions	(28)	(29)	(9)	(8)
Administrative expenses and other	(1)	(2)	-	-
Fair value of plan assets at end of year	$ 409	$ 356	$ 5	$ 6
Funded status at end of year	$ 1	$ (52)	$ (84)	$ (99)

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

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Regulatory assets	$ 93	$ 93	$ 17	$ 33
Non-current assets	14	-	-	-
Accrued benefit liability (current)	-	-	(3)	(2)
Accrued benefit liability (non-current)	(13)	(52)	(81)	(97)

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

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation	$ 408	$ 408	$ 89	$ 105
Accumulated benefit obligation	378	391	-	-
Fair value of plan assets	409	356	5	6

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Service cost	$ 4	$ 4	$ 1	$ 1
Interest cost	24	23	5	6
Expected return on plan assets	(32)	(27)	-	-
Amortization of prior service costs	5	4	2	2
Amortization of transitional asset	-	(1)	-	-
Amortization of actuarial loss	2	4	-	-
Amortization of transitional obligation	-	-	-	1
Benefit cost at end of year	$ 3	$ 7	$ 8	$ 10

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

	2007	2006
Weighted-average assumptions as of December 31:		
Discount rate - Union plan	6.56%	5.91%
Discount rate - Non-union plan	6.66%	5.96%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

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

	2007	2006
Discount rate	5.90%	5.50%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

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

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

- A 1% change in the assumed discount rate could have an approximate $45 million positive or negative impact to the 2007 accumulated benefit obligation and an approximate $52 million positive or negative impact to the 2007 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2007 pension expense.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 9% annual increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2007 total of service and interest costs components and an increase or decrease of $2 million in year-end 2007 postretirement benefit obligations.

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

(in millions)	Pension Plans	Other Postretirement Benefits
2008	$ 28	$ 7
2009	27	8
2010	26	8
2011	26	8
2012	25	8
2013-17	129	38

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

Pension Plans	Target Range	2007	2006
Equity securities	45% - 75%	57%	61%
Debt securities	30% - 50%	43%	39%
Other	0% - 10%	0%	0%
Totals		100%	100%

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

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

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

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

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

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

Contributions. LG&E made discretionary contributions to the pension plan of $56 million in January 2007, and $18 million in January 2006. The discretionary contribution made in January 2007, was slightly more than the $52 million accumulated benefit obligation and its projected benefit obligation as of December 31, 2006.

In addition, LG&E made contributions to other postretirement benefit plans of $7 million and $11 million in 2007 and 2006, respectively. In 2008, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters.

Thrift Savings Plans. LG&E has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. LG&E makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were $2 million for 2007 and 2006.

Note 6 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48 effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the entire $1 million of unrecognized tax benefits would reduce the effective income tax rate. Additions and reductions of uncertain tax positions during 2007 were less than $1 million.

Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million and are based on the expiration of statutes during 2008.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statements in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. Interest of less than $1 million was accrued for 2007 and 2006 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by LG&E upon adoption of FIN 48 or through December 31, 2007.

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

(in millions)		2007	2006
Current	- federal	$ 34	$ 60
	- state	8	11
Deferred	- federal – net	10	(7)
	- state – net	2	(1)
Investment tax credit – deferred		9	3
Amortization of investment tax credit		(4)	(4)
Total income tax expense		$ 59	$ 62

Current federal income tax expense decreased and investment tax credit – deferred increased primarily due to the recording of investment tax credits of $9 million and $3 million at December 31, 2007 and 2006, respectively, as discussed below.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E's and KU's application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures. In November 2006, the DOE and IRS announced that

LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $9 million and $3 million in 2007 and 2006, respectively, decreasing current federal income taxes.

In September 2007, LG&E received Order 2007-00179 from the Kentucky Commission approving the accounting of the investment tax credit. In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. LG&E is not able to predict the ultimate outcome of this proceeding.

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

(in millions)	2007	2006
Deferred tax liabilities:		
Depreciation and other plant-related items	$368	$367
Regulatory assets and other	30	22
Pension and related benefits	5	6
Total deferred tax liabilities	403	395
Deferred tax assets:		
Investment tax credit	14	15
Income taxes due to customers	19	21
Liabilities and other	24	26
Total deferred tax assets	57	62
Net deferred income tax liability	$346	$333
Balance sheet classification		
Current liabilities	$ 4	$ -
Non-current liabilities	342	333
Net deferred income tax liability	$346	$333

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

	2007	2006
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	3.4	3.8
Reduction of income tax accruals	(0.6)	(0.4)
Qualified production deduction	(1.1)	(0.6)
Amortization of investment tax credits	(2.2)	(2.2)
Other differences	(1.5)	(1.0)
Effective income tax rate	33.0%	34.6%

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

H. R. 4520, known as the "American Jobs Creation Act of 2004", allows electric utilities to take a deduction for qualified production activities income starting in 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate changes, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than rates when the deferred tax liability originated. In December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability of $16 million for these net excess deferred income tax balances. LG&E will amortize these depreciation-related excess deferred income tax balances under the average rate assumption method which matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2006 due to their immaterial amount. There were no additional adjustments in 2007.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2007 and 2006, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2007:			
Noncurrent portion	Variable	2012-2037	$ 864
Current portion	Variable	2026-2027	$ 120
Outstanding at December 31, 2006:			
Noncurrent portion	Variable - 5.875%	2008-2035	$ 572
Current portion	Variable	2007-2027	$ 248

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2007, LG&E had an aggregate $575 million of outstanding pollution control indebtedness, of which $394 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.77%, whereas the average rate in January and February of 2008 was 4.58%. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and 2007 Series B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In March 2008, LG&E will issue notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. LG&E expects to purchase such bonds and hold some or all such bonds until a later date, including potential further conversion, remarketings or refinancings. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 14, Subsequent Events.

All of LG&E's first mortgage bonds were released and terminated in April 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of LG&E's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2007 and 2006 was 3.66% and 3.50%, respectively.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2007 and 2006, LG&E had swaps with an aggregate notional value of $211 million. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2007 and 2006 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Secured	2017
2007	Pollution control bonds	$60	Variable	Secured	2017
2007	Pollution control bonds	$35	Variable	Secured	2013
2007	Mandatorily Redeemable Preferred Stock	$20	5.875%	Unsecured	2008
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	2006

LG&E did not issue any new long-term debt in 2006. Issuances of long-term debt for 2007 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Unsecured	2033
2007	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	Pollution control bonds	$35	Variable	Unsecured	2033
2007	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	Due to Fidelia	$67	5.93%	Unsecured	2031
2007	Due to Fidelia	$47	5.72%	Unsecured	2022

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

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

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million. LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter. LG&E also completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Long-term debt maturities for LG&E are shown in the following table:

(in millions)	
2008 - 2011	$ -
2012	25
Thereafter	959 (a)
Total	$984

(a) Includes long-term debt of $120 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2027. LG&E does not expect to pay these amounts in 2008.

Note 8 - Notes Payable and Other Short-Term Obligations

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$400	$ 78	$322	4.75%
December 31, 2006	$400	$ 68	$332	5.25%

As of December 31, 2007 and 2006, E.ON U.S. maintained a revolving credit facility totaling $150 million and $200 million, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$150	$ 62	$88	4.97%
December 31, 2006	$200	$102	$98	5.49%

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012. There was no outstanding balance under any of these facilities at December 31, 2007.

The covenants under these revolving lines of credit include the following:

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

Note 9 - Commitments and Contingencies

Operating Leases. LG&E leases office space, office equipment and vehicles and accounts for these leases as operating leases. Total lease expense less amounts contributed by affiliated companies occupying a portion of the office space leased by LG&E, was $5 million for 2007 and 2006. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2007, are shown in the following table:

(in millions)	
2008	$ 5
2009	4
2010	4
2011	3
2012	3
Thereafter	5
Total	$24

Sale and Leaseback Transaction. LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if LG&E had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

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

At December 31, 2007, the maximum aggregate amount of default fees or amounts was $10 million, of which LG&E would be responsible for 38% (approximately $4 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

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

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

(in millions)	
2008	$ 16
2009	18
2010	19
2011	19
2012	19
Thereafter	322
Total	$ 413

Construction Program. LG&E had $104 million of commitments in connection with its construction program at December 31, 2007.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division of Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. An agency decision on the final permit revisions may occur during 2008. The Company is currently unable to determine the final outcome of this matter.

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

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in 2007 was approximately 0.50 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In February 2008, a federal appellate court issued a decision in one of the proceedings vacating the current CAMR, an outcome that may have the effect of resulting in more stringent mercury reduction rules. However, the ruling could be subject to further appeal. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In 2005, the local air agency in Jefferson County, Kentucky adopted a regulation aimed at regulating additional hazardous air pollutants from sources including power plants. A similar regulation was proposed by the Kentucky air agency in 2006, but it was withdrawn in 2007. To the extent those rules are final, they are not expected to have a material impact on LG&E's power plant operations.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emissions allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions and associated obligations, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 to 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional capital expenditures totaling $130 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the

Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

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

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of the other matters is also not expected to have a material impact on the operations of LG&E.

Note 10 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in Trimble County Unit 1 which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses and incremental assets. The following data represent shares of the jointly owned property:

	Trimble County Unit 1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511

(in millions)	
LG&E's 75% ownership:	
Cost	$ 633
Accumulated depreciation	246
Net book value	$ 387
Construction work in progress (included in above)	$ 27

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

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

(in millions)	LG&E	KU
Construction work in progress	$74	$332

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

($ in millions)	LG&E				KU				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
LG&E 53%, KU 47% (1)	146	58	(12)	46	129	51	(11)	40	275	109	(23)	86
LG&E 38%, KU 62% (2)	118	50	(10)	40	190	78	(14)	64	308	128	(24)	104
LG&E 29%, KU 71% (3)	92	32	(6)	26	228	80	(14)	66	320	112	(20)	92
LG&E 37%, KU 63% (4)	236	79	(8)	71	404	137	(17)	120	640	216	(25)	191
LG&E 29%, KU 71% (5)	n/a	3	-	3	n/a	9	(2)	7	n/a	12	(2)	10

1) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 10 Mw of capacity for LG&E.
2) Comprised of units 6 and 7 at the E.W. Brown facility.
3) Comprised of units 5 and 6 at the Trimble County facility.
4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility
5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

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

Note 11 - Segments of Business and Related Information

LG&E is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity and the storage, distribution and sale of natural gas. LG&E is regulated by the Kentucky Commission and files electric and natural gas financial information separately with the Kentucky Commission. The Kentucky Commission establishes rates specifically for the electric and natural gas businesses. Therefore, management reports analyze financial performance based on the electric and natural gas segments of the business. Financial data for business segments follow:

(in millions)	Electric	Gas	Total
2007			
Operating revenues	$ 933	$ 353	$1,286
Depreciation and amortization	107	19	126
Income taxes	54	5	59
Interest income	1	-	1
Interest expense	41	9	50
Net income	112	8	120
Total assets	2,669	644	3,313
Construction expenditures	157	37	194
2006			
Operating revenues	$ 943	$ 395	$1,338
Depreciation and amortization	105	19	124
Income taxes	57	5	62
Interest income	1	-	1
Interest expense	33	8	41
Net income	107	10	117
Total assets	2,519	665	3,184
Construction expenditures	111	35	146

Note 12 - Related Party Transactions

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

Electric Purchases

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

(in millions)	2007	2006
Electric operating revenues from KU	$93	$99
Purchased power from KU	46	77

Interest Charges

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

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

(in millions)	2007	2006
Interest on money pool loans	$ 4	$ 2
Interest on Fidelia loans	17	11

Other Intercompany Billings

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

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

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

(in millions)	2007	2006
E.ON U.S. Services billings to LG&E	$385	$230
LG&E billings to KU	12	53
KU billings to LG&E	6	56
LG&E billings to E.ON U.S. Services	12	7

In December 2007, LG&E received a capital contribution from its shareholder, E.ON U.S. in the amount of $20 million.

Note 13 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Accumulated Derivative Gain or Loss	Pre-Tax	Income Taxes	Net
Balance at December 31, 2005	$(77)	$(18)	$(95)	$37	$(58)
Minimum pension liability adjustment	77	-	77	(30)	47
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	3	3	(1)	2
Balance at December 31, 2006	-	(15)	(15)	6	(9)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	(6)	(6)	2	(4)
Balance at December 31, 2007	$ -	$(21)	$(21)	$ 8	$(13)

Subsequent to the application of SFAS No. 158, adjustments to the minimum pension liability are recorded as regulatory assets and liabilities. As a result, there are no adjustments to the minimum pension liability recorded in accumulated other comprehensive income at December 31, 2007 or 2006.

Note 14 - Subsequent Events

On January 18, 2008, the Kentucky Commission issued an Order approving the charges and credits billed through the FAC during the review period of November 1, 2006 through April 30, 2007.

On February 1, 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers.

On February 7, 2008 and February 25, 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P, due to downgrades of the bond insurer.

On February 26, 2008, LG&E commenced steps, including notice to relevant parties, to convert the Louisville Metro 2005 Series A bonds from the auction rate mode of interest to a weekly interest rate mode. Such conversion is scheduled to occur on March 24, 2008.

On February 27, 2008, LG&E commenced steps, including notice to relevant parties, to convert the Louisville Metro 2007 Series A and 2007 Series B bonds from the auction rate mode of interest to a weekly interest rate mode. Such conversions are scheduled to occur on April 4, 2008.

Beginning in late 2007, the interest rates on the insured bonds, wherein interest rates are reset either weekly or every 35 days via an auction process, began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.77%, whereas the average rate in January and February of 2008 was 4.58%.

On March 4, 2008, the FERC issued an Order approving the MISO exit fee recalculation agreement which provides LG&E with an immediate recovery of less than $1 million and an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest.

Report of Independent Auditors

To the Shareholder of Louisville Gas and Electric Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, Louisville Gas and Electric Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
March 18, 2008

SEC Form 10-K – December 31, 2006

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the fiscal year ended **December 31, 2006**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-2893	**Louisville Gas and Electric Company** (A Kentucky Corporation) 220 West Main Street P O Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150

Securities registered pursuant to section 12(b) of the Act:

None.

Securities registered pursuant to section 12(g) of the Act:

Louisville Gas and Electric Company
5% Cumulative Preferred Stock, $25 Par Value
$5.875 Cumulative Preferred Stock, Without Par Value
Auction Rate Series A Preferred Stock, Without Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes___No_X__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes___No_X__

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer_____ Non-accelerated filer __X___

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ____ No X

As of June 30, 2006, the aggregate market value of the common stock of Louisville Gas and Electric Company held by non-affiliates was $0. As of February 28, 2007, Louisville Gas and Electric Company had 21,294,223 shares of common stock outstanding, all held by E.ON U.S. LLC.

DOCUMENTS INCORPORATED BY REFERENCE

Louisville Gas and Electric Company's proxy statement, as applicable, to be filed with the Commission during April 2007, is incorporated by reference into Part III of this Form 10-K.

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PART IV

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INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DOE	Department of Energy
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
ESM	Earnings Sharing Mechanism
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FT and FT-A	Firm Transportation
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRC	Internal Revenue Code of 1986, as amended
IRP	Integrated Resource Plan
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
Mcf	Thousand Cubic Feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Mva	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NNS	No-Notice Service
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Ratemaking
Powergen	Powergen Limited (formerly Powergen plc)
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO_2	Sulfur Dioxide
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
Tennessee Gas	Tennessee Gas Pipeline Company
Texas Gas	Texas Gas Transmission LLC
VDT	Value Delivery Team Process
WNA	Weather Normalization Adjustment

PART I

Item 1. Business.

LG&E is a subsidiary of E.ON U.S. LLC (E.ON U.S.) (formerly known as LG&E Energy LLC and LG&E Energy Corp.). E.ON U.S. is a subsidiary of E.ON AG (E.ON), a German corporation. E.ON acquired LG&E Energy through its July 1, 2002 acquisition of Powergen plc, now Powergen Limited, a United Kingdom company and holding company for E.ON UK plc, E.ON's United Kingdom market unit operating parent. As contemplated in their regulatory filings in connection with the E.ON acquisition, E.ON, Powergen and E.ON U.S. completed an administrative reorganization to move the E.ON U.S. group from an indirect Powergen subsidiary to an indirect E.ON subsidiary. This reorganization was effective in March 2003. In early 2004, E.ON U.S. began direct reporting arrangements to E.ON.

LG&E is now an indirect subsidiary of E.ON. As a result of these acquisitions and otherwise, E.ON and E.ON U.S. registered as holding companies under PUHCA 2005 in June 2006, and were formerly registered holding companies under PUHCA 1935.

LG&E's affilitate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

In order to comply with PUHCA 1935, E.ON U.S. Services (formerly LG&E Energy Services), which was formed as a subsidiary service company of E.ON U.S., provides services to affiliated entities, including LG&E, at cost as permitted under PUHCA 1935 and PUHCA 2005.

E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries are subject to certain regulation by the FERC under the Federal Power Act, PUHCA 2005 and the EPAct 2005, including with respect to record-keeping and reporting, acquisitions and sales of utility securities and properties, financial matters and intra-system sales of goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business. LG&E will seek additional authorization when necessary.

LG&E has continued its separate identity and its preferred stock and debt securities were not affected by these transactions.

General

LG&E, incorporated in 1913 in Kentucky, is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation, to which LG&E transports natural gas and provides electric service, but does not provide any distribution services. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers. See Item 2, Properties.

Operating Revenues

For the year ended December 31, 2006, 70% of total operating revenues were derived from electric operations and 30% from natural gas operations. Electric and gas operating revenues and the percentages by class of service on a combined basis for this period were as follows:

(in millions)	Electric	Gas	Combined	% Combined
Residential	$272	$248	$ 520	48%
Commercial	227	103	330	30%
Industrial	134	16	150	14%
Public authorities	69	19	88	8%
Total retail	702	386	1,088	100%
Wholesale sales	224	1	225	
Gas transported	-	5	5	
Miscellaneous	17	3	20	
Total	$943	$395	$1,338	

See Note 11 of Notes to Financial Statements under Item 8 for financial information concerning segments of business for the three years ended December 31, 2006.

Electric Operations

The sources of LG&E's electric operating revenues and the sales volumes for the three years ended December 31, 2006, were as follows:

(in millions)	2006	2005	2004
ELECTRIC OPERATING REVENUES			
Residential	$272	$276	$241
Commercial	227	221	202
Industrial	134	128	120
Public authorities	69	66	62
Total retail	702	691	625
Wholesale sales	224	259	185
Provision for rate collections (refunds)	-	-	(11)
Miscellaneous	17	37	17
Total	$943	$987	$816

(Thousands of Mwh)	2006	2005	2004
ELECTRIC SALES			
Residential	4,018	4,265	3,923
Commercial	3,614	3,682	3,534
Industrial	3,068	3,077	3,019
Public authorities	1,265	1,268	1,248
Total retail	11,965	12,292	11,724
Wholesale sales	7,621	8,704	7,819
Total	19,586	20,996	19,543

LG&E set its annual peak load of 2,729 Mw on August 3, 2006, when the temperature reached 94 degrees Fahrenheit in Louisville. LG&E's record peak load of 2,754 Mw occurred in July 2005.

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. See Results of Operations under Item 7.

LG&E currently maintains a 12% - 14% reserve margin range. At December 31, 2006, LG&E owned steam and combustion turbine generating facilities with a net summer capability of 3,083 Mw and an 80 Mw nameplate-rated hydroelectric facility on the Ohio River with a net summer capability of 48 Mw. See Item 2, Properties. LG&E also obtains power from other utilities under bulk power purchase and interchange contracts. At December 31, 2006, LG&E's system net summer capability, including purchases from others and excluding the hydroelectric facility, was 3,207 Mw.

LG&E uses efficient coal-fired boilers, fully equipped with SO_2 removal systems, to generate most of its electricity. LG&E's weighted-average system-wide emission rate for SO_2 in 2006 was approximately 0.50 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power stations that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty

Creek Station in Indiana. LG&E owns 5.63% of OVEC's common stock. Pursuant to current contractual arrangements, LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

LG&E was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since its exit from the MISO, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E further contracted with the Tennessee Valley Authority to act as its reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements, with respect to transmission matters.

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

Gas Operations

The sources of LG&E's natural gas operating revenues and the sales volumes for the three years ended December 31, 2006, were as follows:

(in millions)	2006	2005	2004
GAS OPERATING REVENUES			
Residential	$248	$265	$223
Commercial	103	108	89
Industrial	16	19	15
Public authorities	19	19	15
Total retail	386	411	342
Wholesale sales	1	19	7
Gas transported	5	5	6
Miscellaneous	3	2	2
Total	$395	$437	$357
(Millions of cu. ft.)			
GAS SALES			
Residential	17,816	20,801	21,402
Commercial	8,130	9,131	9,144
Industrial	1,491	1,711	1,736
Public authorities	1,499	1,574	1,646
Total retail	28,936	33,217	33,928
Wholesale sales	149	2,652	1,221
Gas transported	12,000	12,549	13,692
Total	41,085	48,418	48,841

The natural gas utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. While natural gas usage patterns are seasonal, LG&E received approval from the Kentucky Commission for a WNA mechanism. The WNA mechanism adjusts the distribution cost recovery component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of weather extremes. In October 2006, the Kentucky Commission approved LG&E's request to extend the current WNA mechanism through April 30, 2009. See Results of Operations under Item 7.

LG&E has five underground natural gas storage fields that help provide economical and reliable natural gas service to ultimate consumers. By using natural gas storage facilities, LG&E avoids the costs associated with typically more expensive pipeline transportation capacity to serve peak winter space-heating loads. LG&E stores natural gas in the summer season for withdrawal in the subsequent winter heating season. Without its storage capacity, LG&E would be forced to buy additional natural gas and pipeline transportation services during the winter months when customer demand increases and when the prices for natural gas supply and transportation services are typically at their highest. Currently, LG&E buys competitively priced natural gas from several large suppliers under contracts of varying duration. LG&E's underground storage facilities, in combination with its purchasing practices, enable it to offer natural gas sales service at competitive rates. At December 31, 2006, LG&E had an inventory balance of natural gas stored underground of approximately 11.6 million Mcf of working natural gas valued at approximately $83 million.

A number of industrial customers purchase their natural gas requirements directly from alternate suppliers for delivery through LG&E's distribution system. These large industrial customers account for approximately one-fourth of LG&E's annual throughput.

During 2006, the maximum daily gas sendout was approximately 380,000 Mcf, occurring on December 7, 2006, when the average temperature for the day was 19 degrees Fahrenheit. Supply on that day consisted of approximately 226,000 Mcf from purchases, approximately 84,000 Mcf delivered from underground storage and approximately 70,000 Mcf transported for industrial customers. For a further discussion, see Gas Supply under Item 1.

Rates and Regulation

E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. As a registered holding company, E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries have been subject to extensive regulation by the SEC and the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In August 2005, President Bush signed into law the EPAct 2005, significantly changing many federal statutes, repealing PUHCA 1935 as of February 8, 2006 and enacting PUHCA 2005. As part of the repeal of PUHCA 1935, the FERC was given more authority over the merger and acquisition of public utilities and more authority over the books and records of public utilities. Despite these increases in the FERC's authority, LG&E believes that the repeal of PUHCA 1935 will lessen its regulatory burdens and provide more flexibility in the event of expansion.

Besides repealing PUHCA 1935, the EPAct 2005 is also expected to have substantial long-term effects on energy markets, energy investment and regulation of public utilities and holding company systems by the FERC and the DOE. The FERC and the DOE are in various stages of rulemaking in implementing the EPAct 2005. While the precise impact of these rulemakings cannot be determined at this time, LG&E generally views the EPAct 2005 as legislation that will enhance the utility industry going forward.

The Kentucky Commission has regulatory jurisdiction over LG&E's retail rates and service, and over the issuance of certain of its securities. The Kentucky Commission has the ability to examine the rates LG&E charges its retail customers at any time.

Pursuant to Kentucky law, the Kentucky Commission has established the boundaries of the service territory or area of each retail electric supplier in Kentucky (including LG&E), other than municipal corporations. Within this service territory each such supplier has the exclusive right to render retail electric service.

LG&E's retail electric rates contain an FAC, whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to retail electric customers. The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. The Kentucky Commission also requires that electric utilities, including LG&E, file documents relating to fuel procurement and the purchase of power and energy from other utilities.

Prior to 2004, LG&E's retail electric rates were subject to an ESM which set an upper (12.5%) and lower (10.5%) limit for rate of return on equity. Any earnings excess or deficiency was shared 40% with ratepayers and 60% with shareholders. LG&E filed its final 2003 ESM calculations with the Kentucky Commission in March 2004 and applied for recovery of $13 million which was challenged by intervenors. In June 2004, the Kentucky Commission issued an Order largely accepting proposed settlement agreements by LG&E and the intervenors regarding the ESM. Under the settlements, LG&E continued to collect the $13 million of previously requested 2003 ESM revenue through March 2005. As part of the settlements, the parties agreed to a termination of the ESM relating to all periods after 2003. For discussion of current ESM matters, see Note 2 of Notes to Financial Statements under Item 8.

In June 2001, LG&E filed an application ("VDT case") with the Kentucky Commission to create a regulatory asset relating to first quarter 2001 charges for a workforce reduction program. In December 2001, the Kentucky Commission approved a settlement in the VDT case and allowed LG&E to establish a regulatory asset of $141 million for the workforce reduction costs and begin amortizing these costs over a five year period starting in April 2001. The settlement reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of the stipulated savings, net of amortization costs, of the workforce reduction. For discussion of current VDT matters, see Note 2 of Notes to Financial Statements under Item 8.

LG&E's retail rates contain an ECR surcharge which recovers costs incurred by LG&E that are required to comply with the Clean Air Act and other environmental regulations. See Note 2 of Notes to Financial Statements under Item 8.

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

Integrated resource planning regulations in Kentucky require LG&E and the other major utilities to make triennial filings with the Kentucky Commission of various historical and forecasted information relating to load, capacity margins and DSM techniques. LG&E filed its most recent IRP in April 2005. The AG and KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006.

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's annual electric base rates of approximately $43 million (7.7%) and annual natural gas base rates of approximately $12 million (3.4%). The rate increases took effect on July 1, 2004.

Subsequently during 2004 and 2005, the AG conducted an investigation regarding the proceedings resulting in the rate increases. The AG requested information from LG&E and the Kentucky Commission and its staff regarding alleged improper communications between LG&E and the Kentucky Commission related to the rate proceedings. The AG also requested rehearing of the rate increase orders on the basis of these allegations, as well as calculational aspects of the increased rates. In February 2005, the AG submitted a confidential report on its investigation with the Kentucky Commission and filed a motion summarizing the report as containing evidence of improper communications and record-keeping errors by LG&E in respect of its activities with state governmental agencies, including the Kentucky Commission.

In December 2005, the Kentucky Commission issued an Order noting completion of its inquiry, including review of the AG's investigative report. The Order concluded that no improper communications occurred during the rate proceedings. Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. In March 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority, a non-profit corporation, in connection with the development and construction of a new multi-purpose arena in downtown Louisville. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E entered into a definitive relocation agreement with the Louisville Arena Authority providing for the reimbursement of the costs to be incurred in moving certain facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a definitive property sale agreement providing for the sale of LG&E's downtown site to the Louisville Arena Authority for approximately $10 million, representing the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the agreements are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the agreements are anticipated to occur between 2006 and 2010.

For a further discussion of regulatory matters, see Note 2 of Notes to Financial Statements under Item 8.

Construction Program and Financing

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric and natural gas needs of its service area. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E's estimates of its construction expenditures can vary substantially due to numerous items beyond LG&E's control, such as changes in interest rates, economic conditions, construction costs and new environmental or other governmental laws and regulations.

During the five years ended December 31, 2006, gross property additions amounted to approximately $872 million. Internally generated funds and external financings for the five-year period were utilized to provide for these gross additions. The gross additions during this period amounted to approximately 21% of total utility plant at December 31, 2006, and consisted of $698 million for electric properties and $174 million for natural gas properties. Gross retirements during the same period were $171 million, consisting of $138 million for electric properties and $33 million for natural gas properties.

Capital expenditures during the three years ending December 31, 2009, are estimated to be approximately $665 million. The major expenditures during this period relate to the development and construction of TC2, of which LG&E's portion totals approximately $150 million (including $40 million for environmental controls), other environmental control equipment of approximately $80 million and approximately $30 million for the redevelopment of the Ohio Falls hydro facility.

Coal Supply

Coal-fired generating units provided approximately 97% of LG&E's net kilowatt-hour generation for 2006. The remaining net generation for 2006 was provided by natural gas and oil-fueled combustion turbine peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by LG&E in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. LG&E has no nuclear generating units and has no plans to build any in the foreseeable future.

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

LG&E has entered into coal supply agreements with various suppliers for coal deliveries for 2007 and beyond and normally augments its coal supply agreements with spot market purchases. LG&E has a coal inventory policy which it believes provides adequate protection under most contingencies. A coal inventory of approximately one million tons, or a 47-day supply, was on hand at December 31, 2006.

LG&E expects to continue purchasing most of its coal, which has sulfur content in the 2% - 3.5% range, from western Kentucky, southern Indiana, southern Illinois, Ohio and West Virginia for the foreseeable future. This supply, in combination with the Company's SO_2 removal systems, is expected to enable LG&E to continue to provide electric service in compliance with existing environmental laws and regulations.

Coal is delivered to LG&E's Mill Creek station by rail and barge, Trimble County station by barge and Cane Run station by rail.

The historical average delivered cost of coal purchased and the percentage of spot coal purchases were:

	2006	2005	2004
Per ton	$34.83	$30.37	$26.25
Per MMBtu	$1.51	$1.32	$1.15
Spot purchases as % of all sources	8%	14%	7%

Gas Supply

LG&E purchases natural gas supplies from multiple sources under contracts for varying periods of time, while transportation services are purchased from Texas Gas and Tennessee Gas.

LG&E transports natural gas on the Texas Gas system under Rate Schedules NNS and FT service. LG&E's winter season NNS levels are 184,900 MMBtu/day and its winter season FT levels are 28,000 MMBtu/day. LG&E's summer season NNS levels are 60,000 MMBtu/day and its summer season FT levels are 28,000 MMBtu/day. Each of the NNS agreements with Texas Gas is subject to termination by LG&E in equal portions during 2008, 2010 and 2011. Each of the FT agreements with Texas Gas is subject to termination by LG&E during 2008 and 2011. LG&E also transports on the Tennessee Gas system under Tennessee Gas' Rate Schedule FT-A. LG&E's contract levels with Tennessee Gas are 51,000 MMBtu/day throughout the year. The FT-A agreement with Tennessee Gas expires during 2012.

LG&E participates in rate and other proceedings affecting the regulated interstate natural gas pipelines that provide it service. Both Texas Gas and Tennessee Gas have active proceedings at the FERC in which LG&E is participating. During 2005, Texas Gas filed an application with the FERC to increase its base rates. Texas Gas began billing its rates subject to refund in that same year, pending approval of final rates by the FERC. Along with other interested parties, LG&E participated in this proceeding. The intervening parties reached a settlement of the issues, and the FERC approved the settlement in 2006. Shortly thereafter, Texas Gas refunded all amounts collected in excess of the final approved rates and refunded the applicable amounts to all customers. LG&E is in the process of refunding its portion of those refunded amounts to its retail customers through the GSC. The rates of Tennessee Gas are not being billed subject to refund.

LG&E also has a portfolio of supply arrangements of various terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. These firm natural gas supplies, in tandem with pipeline transportation services, provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E owns and operates five underground natural gas storage fields with a current working natural gas capacity of approximately 15.1 million Mcf. Natural gas is purchased and injected into storage during the summer season and is then withdrawn to supplement pipeline supplies to meet the gas-system load requirements during the winter heating season. See Gas Operations under Item 1.

The estimated maximum deliverability from storage during the early part of the heating season is expected to be in excess of 350,000 Mcf/day. Under mid-winter design conditions, LG&E expects to be able to withdraw in excess of 300,000 Mcf/day from its storage facilities. The deliverability of natural gas from LG&E's storage facilities decreases as storage inventory levels are reduced by seasonal withdrawals.

LG&E relies upon its significant underground storage to mitigate the price volatility to which customers might otherwise be exposed. In 2000, the Kentucky Commission issued an Order establishing Administrative Case

No. 384 – *An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of such Increase on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies*. Subsequent to this investigation, the Kentucky Commission issued an Order in July 2001, encouraging natural gas distribution companies in Kentucky to take various actions, among them to propose a natural gas hedge plan. LG&E currently operates under a hedge plan proposed by LG&E beginning with the 2004/2005 winter heating season. This hedge plan relies upon LG&E's underground natural gas storage to mitigate customer exposure to price volatility. In 2004, the Kentucky Commission approved LG&E's proposed hedge plan, validating the effectiveness of storage to mitigate potential volatility associated with high winter natural gas prices. The Kentucky Commission also ordered that LG&E need not file hedge plans in the future unless it intended to utilize financial hedging instruments.

The average cost per Mcf of natural gas purchased by LG&E was $7.80 in 2006, $10.23 in 2005 and $7.18 in 2004. For further discussion of wholesale natural gas prices, see Note 2 of Notes to Financial Statements under Item 8.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. For the five-year period ending with 2006 expenditures for pollution control facilities represented $179 million or 20% of total construction expenditures. LG&E estimates that construction expenditures for environmental control equipment from 2007 through 2009 will be approximately $120 million. For a discussion of environmental matters, see Note 9 of Notes to Financial Statements under Item 8.

In October 2006, E.ON U.S., LG&E and KU announced plans to provide up to $25 million over a period of up to twelve years to FutureGen Industrial Alliance, Inc. ("FutureGen"), a non-profit consortium. FutureGen will conduct research, development and demonstration activities relating to advanced coal technologies, including proposed construction of the world's first coal-fired, "near zero emissions" power plant. Among the members of FutureGen are companies with interests in coal-fired electric power generation or coal production. FutureGen has signed an initial cooperative agreement with the DOE and expects to sign a full-scope cooperative agreement in 2007. Beyond their initial aggregate membership amount and contributions paid through 2006 of approximately $1 million, E.ON U.S., LG&E and KU have rights at sequential future times to terminate participation prior to incurring the obligation to contribute the relevant remaining contribution amounts.

Competition

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

Over the last several years, LG&E has taken many steps to maintain efficient rate structures while achieving high levels of customer satisfaction, including: an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; and continuous modifications of its organizational structure. LG&E also strives to control costs through competitive bidding and process improvements. LG&E's performance in national customer satisfaction surveys continues to be high.

EMPLOYEES AND LABOR RELATIONS

LG&E had approximately 917 full-time regular employees at February 28, 2007. Of the total, 632 operating, maintenance and construction employees were represented by the IBEW Local 2100. LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement in November 2005 with annual benefits re-openers.

E.ON U.S. Services provides services to affiliated entities, including LG&E, at cost as permitted under PUHCA 2005. On February 28, 2007, approximately 993 employees worked for E.ON U.S. Services.

Executive Officers of LG&E at February 28, 2007:

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	51	Chairman of the Board, President and Chief Executive Officer	May 1, 2001
John R. McCall	63	Executive Vice President, General Counsel and Corporate Secretary	July 1, 1994
S. Bradford Rives	48	Chief Financial Officer	September 15, 2003
Paul W. Thompson	50	Senior Vice President - Energy Services	June 7, 2000
Chris Hermann	59	Senior Vice President - Energy Delivery	February 14, 2003
Wendy C. Welsh	53	Senior Vice President - Information Technology	December 11, 2000
Martyn Gallus	42	Senior Vice President - Energy Marketing	December 11, 2000
Paula H. Pottinger	50	Senior Vice President - Human Resources	January 2, 2006
Other Officers of LG&E at February 28, 2007:			
David A. Vogel*	41	Vice President - Retail and Gas Storage Operations	March 1, 2003
Michael S. Beer	48	Vice President - Federal Regulation and Policy	September 27, 2004
George R. Siemens	57	Vice President - External Affairs	January 11, 2001
D. Ralph Bowling	49	Vice President - Power Operations WKE	August 1, 2002
R. W. Chip Keeling	50	Vice President - Communications	March 18, 2002
John N. Voyles, Jr.	52	Vice President - Regulated Generation	June 16, 2003
Daniel K. Arbough	45	Treasurer	December 11, 2000
Valerie L. Scott	50	Controller	January 1, 2005

Officers generally serve in the same capacities at LG&E and its affiliates, E.ON U.S. and KU.
*Mr. Vogel announced his resignation from the Company during March 2007.

The present term of office of each of the above executive and other officers extends to the meeting of the Board of Directors following the 2007 Annual Meeting of Shareholders.

There are no family relationships between or among executive and other officers of LG&E. The above tables indicate officers serving as executive officers of LG&E at February 28, 2007.

Before he was elected to his current position, Mr. Staffieri was President and Chief Operating Officer of LG&E Energy from March 1999 to April 2001 (including President of LG&E from June 2000 to April 2001).

Mr. McCall has been Executive Vice President, General Counsel and Corporate Secretary of LG&E Energy and LG&E since July 1994.

Before he was elected to his current position, Mr. Rives was Senior Vice President - Finance and Controller of LG&E Energy and LG&E from December 2000 to September 2003.

Before he was elected to his current position, Mr. Thompson was Senior Vice President - Energy Services for LG&E Energy from August 1999 to June 2000.

Before he was elected to his current position, Mr. Hermann was Senior Vice President - Distribution Operations, from December 2000 to February 2003.

Before she was elected to her current position, Ms. Welsh was Vice President - Information Technology from February 1998 to December 2000 for LG&E Energy.

Before he was elected to his current position, Mr. Gallus was Vice President, Energy Marketing from August 1998 to December 2000 for LG&E Energy.

Before she was elected to her current position, Ms. Pottinger was Director, Human Resources from June 1997 to June 2002 and Vice President - Human Resources from June 2002 to January 2006.

Before he was elected to his current position, Mr. Vogel was Vice President - Retail Services from December 2000 to March 2003.

In addition to being elected to his current position, Mr. Arbough has held the positions of Director, Corporate Finance of LG&E Energy and LG&E from May 1998 to present.

Before he was elected to his current position, Mr. Beer was Senior Counsel Specialist, Regulatory from February 2000 to February 2001 and Vice President - Rates and Regulatory from February 2001 to September 2004.

Before he was elected to his current position, Mr. Siemens held the position of Director of External Affairs for LG&E Energy from August 1982 to January 2001.

Before he was elected to his current position, Mr. Bowling was General Manager Black Fossil Operations for E.ON U.K. in the United Kingdom from January 2002 to August 2002.

Before he was elected to his current position, Mr. Keeling was Director, Corporate Communications for LG&E

Energy from February 2000 to March 2002.

Before he was elected to his current position, Mr. Voyles was General Manager, Cane Run, Ohio Falls and Combustion Turbines, November 1998 to February 2003 and Director, Generation Services, February 2003 to June 2003.

Before she was elected to her current position, Ms. Scott was Director, Trading Controls and Energy Marketing Accounting from February 1999 to September 2002 and Director, Financial Planning and Accounting - Utility Operations from September 2002 to December 2004.

Item 1A. Risk Factors

In addition to the other information in this Form 10-K and other documents furnished to or filed by LG&E with the SEC from time to time, the following factors should be carefully considered in evaluating the Company. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

The electric and gas rates that LG&E charges customers, as well as other aspects of the business, are subject to significant state and FERC regulation.

The rates that the Company is allowed to charge for its services are a primary item influencing the results of operations, financial position and liquidity of the Company. The regulation of the rates that are collected from customers is determined, in large part, by governmental organizations outside the Company's control, including the Kentucky Commission. This commission regulates many aspects of utility operations, including financial and capital structure matters, siting and construction of facilities, terms and conditions of service, safety and operations, accounting and cost allocation methodologies and other matters. While rate regulation is premised on recovery of prudently incurred costs and reasonable rate of return on capital, such cannot be assured. Regulatory proceedings regarding all matters of operations can thus significantly affect the earnings, liquidity and business activities of the Company.

Transmission and interstate market activities of LG&E, as well as other aspects of the business, are subject to significant FERC regulation.

The Company's business is subject to regulation under the FERC covering matters including rates charged to transmission users and wholesale customers, interstate market structure and design, construction and operation of transmission facilities, acquisition and disposal of utility assets and securities, Standards of Conduct, Codes of Conduct, cost allocations and financial matters. Existing FERC regulation, changes thereto or issuance of new rules in these areas, can affect the earnings, operations and other activities of the Company.

LG&E's exit from the MISO, as well as changes in transmission and wholesale power market structures, could increase costs or reduce revenues.

LG&E withdrew from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. As required by the FERC, in connection with its exit, the Company has engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. Such activities may have an effect on the Company's ability to access the transmission system for wholesale, native load and off-system power activities. The Company will save certain MISO membership costs and charges, but is subject to MISO charges for off-system transactions in the MISO day-ahead and real-time energy markets as well as fees related to the new transmission service vendors. The Company believes that, over time, the benefits and savings from its exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

LG&E undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs.

In the ordinary course of business, the Company is continually developing, permitting and constructing new generation and transmission facilities, as well as maintaining and improving existing facilities. The completion of these facilities without delays or cost overruns is subject to risks in many areas including approval and licensing; permitting; construction problems or delays; increases in commodity or equipment prices or in labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments. Delays, additional costs or unsatisfactory regulatory treatment can result in reduced earnings. Further, if construction projects are not completed according to specifications, the Company may incur reduced plant efficiency, higher operating costs or continued capital costs.

Projects underway at LG&E include plans to construct a new base-load generating unit, TC2, and associated transmission facilities; the upgrade or construction of other transmission facilities and upgrades to emissions reduction equipment. These projects are in varying stages of construction, planning or regulatory approval.

LG&E's costs of compliance with environmental laws are significant and are subject to continuing changes.

LG&E is subject to extensive federal, state and local environmental requirements which, among other things, regulate air emissions, water discharges and the management of hazardous and solid waste in order to adequately protect the environment. Compliance by the Company requires significant expenditures for installation of pollution control equipment, environmental monitoring, emission fees and permits at all of its facilities. If the Company fails to comply with environmental laws and regulations, even if caused by factors beyond its control, civil or criminal penalties and fines can result. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on LG&E's facilities or increased compliance costs which may not be fully recoverable from customers. The cost impact of such changes would depend upon the specific requirements enacted and cannot be determined at this time.

LG&E is undertaking significant emissions construction projects relating to upcoming compliance with the Clean Air Act, CAIR and CAMR standards, among others. Rate recovery and other regulatory proceedings regarding these matters occur periodically and will continue for some time.

LG&E's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances.

Customer demand for electricity and natural gas is seasonal and can cause extreme variability in load due to higher or lower than normal temperatures. Generally, demand for electricity peaks during the summer and demand for natural gas peaks during the winter. As a result, LG&E's overall operating results can fluctuate substantially on a seasonal basis. LG&E maintains adequate generating and natural gas supply resources to accommodate system demands for electricity and natural gas. In addition, the Company has generally sold less electricity or natural gas, as applicable, and consequently earned lower revenues, when weather conditions have been milder. However, the natural gas rates contain a WNA mechanism which adjusts the distribution cost recovery component of the natural gas billings of residential and commercial customers to normal temperatures during the heating season months of November through April, somewhat mitigating the effect of weather extremes. Severe weather, such as tornadoes, ice storms, thunderstorms, high wind or floods could also significantly affect the Company's operations by causing power outages, damaging infrastructure and requiring significant repair costs. Terrorism, explosions or fires pose similar risks. LG&E maintains a comprehensive storm management plan for efficient and timely restoration of service to customers after major storm events.

LG&E is subject to risks regarding potential developments concerning global climate change matters.

LG&E is exposed to risks related to possible developments concerning climate change or global warming, including regulations relating to GHG. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions, establishing costs or charges on GHG emissions or on fuels relating to such emissions, requiring remediation, sequestration or generation fleet-diversification to address GHG emissions, promoting energy efficiency or other measures. These actions could have substantial effects on the Company's financial condition or results of operations, including increased capital expenditures or operating costs and changes in rate structures, fuel prices or customer demand levels. The Company's generation fleet is predominantly coal-fired and may, as a relative matter, be highly impacted by developments in this area.

LG&E's business is concentrated in the Midwest United States, specifically Kentucky.

The operations of the Company are located in Kentucky and are therefore impacted by changes in the Midwest United States economy in general, and the Kentucky economy in particular. General economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers in the Company's service territory can affect the demand for electricity and natural gas.

LG&E is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment.

Operation of power plants, transmission and distribution facilities subjects LG&E to many risks, including the breakdown or failure of equipment, accidents, labor disputes, delivery/transportation problems, disruptions of fuel supply and performance below expected levels. Because LG&E's transmission facilities are interconnected with those of third parties, the operation of its facilities may be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties. Operation of the Company's power plants below expected capacity levels could result in lost revenues or increased expenses, including higher maintenance costs that may not be recovered from customers. Unplanned outages may result in significant replacement power costs. While LG&E believes appropriate prevention or mitigation measures are in place, where possible, with respect to these potential business disruptions, no assurances can be given that such events will not occur in the future or will not negatively affect its financial condition or results of operations.

LG&E could be negatively affected by rising interest rates, downgrades to credit ratings or other negative developments in its ability to access capital markets.

In the ordinary course of business, the Company has significant long-term and short-term financing requirements to fund its capital expenditures, debt interest or maturities and operating needs. If rating agencies were to downgrade the Company's credit ratings, particularly below investment grade, or withdraw such ratings, it could significantly limit access to the capital market and the Company's borrowing costs could increase. In addition, the Company's financing costs can be affected by financial matters involving its parent holding company, including its overall credit rating, its provision of intra-company financing and the terms and rates of such financing.

LG&E is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business.

LG&E is exposed to market, operating and financial risks common to utility operations. Although the Company operates largely in regulated markets, increases in the cost of power and fuel, such as coal or natural gas, as well as other major inputs and supplies, can affect its margins because authorized rate structures and pass-through cost mechanisms may include timing lags or regulatory discretion which do not lead to full cost recovery. Changes in the wholesale market price for electricity can impact LG&E's financial results by altering the revenues from off-system sales of excess power from period to period. LG&E is also exposed to risk that counterparties could fail to perform their obligations to provide energy, fuel, goods, services or payments resulting in potential increased costs to the Company.

LG&E is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related benefits.

The Company's funding obligations concerning defined benefit pension and postretirement plans are subject to risks relating to developments in future costs, returns on investments, interest rates and other actuarial matters which may differ from assumptions currently in effect for the plans and may lead to higher required funding outlays. Further, higher wage levels, whether related to collective bargaining agreements or employment market conditions, and costs of providing health care benefits to employees may adversely affect LG&E's results of operations, financial position or liquidity.

Item 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

LG&E's power generating system consists of the coal-fired units operated at its three steam generating stations. Combustion turbines supplement the system during peak or emergency periods. LG&E owns and operates the following electric generating stations unless otherwise stated:

	Summer Capability Rating (Mw)
Steam Stations:	
Mill Creek – Jefferson County, KY	
Unit 1	303
Unit 2	301
Unit 3	391
Unit 4	477
Total Mill Creek	1,472
Cane Run – Jefferson County, KY	
Unit 4	155
Unit 5	168
Unit 6	240
Total Cane Run	563
Trimble County – Trimble County, KY (a)	383
Combustion Turbine Generators (Peaking capability):	
Zorn – Jefferson County, KY	14
Paddy's Run – Jefferson County, KY (b)	119
Cane Run – Jefferson County, KY	14
Waterside – Jefferson County, KY (c)	-
E.W. Brown – Mercer County, KY (d)	190
Trimble County – Trimble County, KY (e)	328
Total combustion turbine generators	665
Total capability rating	3,083

(a) Amount shown represents LG&E's 75% interest. See Notes 9 and 10 of Notes to Financial Statements under Item 8 for further discussion on ownership.

(b) Amount shown represents LG&E's 53% interest in Unit 13 and 100% ownership of Units 11 and 12. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership. Unit 12 was mothballed in November 2006. Life assessment (repair or retire) studies are ongoing.

(c) Pursuant to the Definitive Property Sale Agreement entered into with the Louisville Arena Authority in 2006, the Waterside property will be sold to the Louisville Arena Authority when the relocation of the LG&E assets has been completed, which is expected to occur by the end of 2008. The Waterside units were retired in December 2006.

(d) Amount shown represents LG&E's 53% interest in Unit 5, 38% interest in Units 6 and 7 and 10% of the Inlet Air Cooling system, attributable to Unit 5. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership. KU operates these units on behalf of LG&E.

(e) Amount shown represents LG&E's 29% interest in Units 5 and 6 and LG&E's 37% interest in Units 7, 8, 9 and 10. See Notes 9 and 10 of Notes to Financial Statements, under Item 8 for further discussion on ownership.

LG&E also owns an 80 Mw nameplate-rated hydroelectric generating station located in Jefferson County, Kentucky (Ohio Falls), with an expected summer capability rating of 48 Mw, operated under a license issued by the FERC.

At December 31, 2006, LG&E's electric transmission system included 41 substations (26 of which are shared with the distribution system) with a total capacity of approximately 11,900 Mva and approximately 894 miles of lines. The electric distribution system included 93 substations (26 of which are shared by the transmission system) with a total capacity of approximately 4,940 Mva, 3,931 miles of overhead lines and 2,161 miles of underground conduit.

LG&E's natural gas transmission system includes 260 miles of transmission mains and the natural gas distribution system includes 4,175 miles of distribution mains.

LG&E operates underground natural gas storage facilities with a current working gas capacity of approximately 15.1 million Mcf. See Gas Supply under Item 1.

In 1990, LG&E entered into an operating lease for its corporate office building located in downtown Louisville, Kentucky. The lease was renegotiated in 2002 and is scheduled to expire July 31, 2015.

Other properties owned by LG&E include office buildings, service centers, warehouses, garages and other structures and equipment, the use of which is common to both the electric and gas departments.

The trust indenture securing LG&E's first mortgage bonds constitutes a direct first mortgage lien upon much of the property owned by LG&E. In addition, Fidelia has a second secured lien on the property subject to the first mortgage bond lien for certain of its intercompany loans to LG&E.

ITEM 3. Legal Proceedings.

Rates and Regulatory Matters

For a discussion of current rate and regulatory matters, including electric and natural gas base rate increase proceedings, the Kentucky AG investigation, VDT proceedings, TC2 proceedings, various Kentucky Commission, FERC and MISO proceedings and other rate or regulatory matters affecting LG&E, see Rates and Regulation under Item 1 and Note 2 of Notes to Financial Statements under Item 8.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent regulations; items regarding the Cane Run generating station, MGP sites; global warming or climate change matters and other environmental items affecting LG&E, see Executive Summary (Environmental Matters) and Note 9 of Notes to Financial Statements under Item 8.

FERC Audit Results

In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Employment Discrimination Case

In October 2001, approximately 30 employees or former employees filed a complaint against LG&E claiming past and current instances of employment discrimination. LG&E has removed the case to the U.S. District Court for the Western District of Kentucky and filed an answer denying all plaintiffs' claims. To date, the U.S. Equal Employment Opportunity Commission has declined to proceed to litigation on any claims reviewed. Through continuing mediation, settlements have been reached with the majority of plaintiffs, including the lead plaintiff. In November 2006, LG&E obtained dismissal orders on all but two remaining plaintiffs. The complaint contains a claimed damage amount of $100 million as well as requests for injunctive relief, however, all prior settlements have been for non-material amounts and LG&E does not anticipate that the remaining outcome will have a material impact on its operations or financial condition.

Other

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

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

PART II.

ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

All LG&E common stock, 21,294,223 shares, is held by E.ON U.S. Therefore, there is no public market for LG&E's common stock.

The following table sets forth LG&E's cash distributions on common stock paid to E.ON U.S. during 2006:

(in millions)	
First quarter	$ 40
Second quarter	20
Third quarter	35
Fourth quarter	-

LG&E paid cash distributions on common stock to E.ON U.S. in the amount of $39 million in 2005 and $57 million in 2004.

ITEM 6. Selected Financial Data.

(in millions)	Years Ended December 31				
	2006	2005	2004	2003	2002
Operating revenues	$1,338	$1,424	$1,173	$1,094	$1,004
Net operating income	$ 223	$ 230	$ 185	$ 179	$ 173
Net income	$ 117	$ 129	$ 96	$ 91	$ 89
Total assets	$3,184	$3,146	$2,967	$2,882	$2,769
Long-term obligations (including amounts due within one year)	$ 820	$ 821	$ 872	$ 798	$ 617

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

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during 2006, 2005 and 2004 and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may materially vary. Factors that could cause actual results to materially differ include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; actions by credit rating agencies and other factors described from time to time in LG&E's reports to the SEC, including Risk Factors in Item 1A of this report on Form 10-K and in Exhibit No. 99.01 to this report on Form 10-K.

EXECUTIVE SUMMARY

Business

LG&E is a wholly-owned subsidiary of E.ON U.S., which is an indirect subsidiary of E.ON, a German company. LG&E maintains a separate corporate identity and serves customers in Kentucky.

LG&E, incorporated in 1913 in Kentucky, is a regulated public utility that supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties and has an estimated population of one million. Included in this area is the Fort Knox Military Reservation, to which LG&E transports natural gas and provides electric service, but does not provide any distribution services. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating plants, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

Customers

The following table provides statistics regarding LG&E's retail customers:

Customers (in thousands)

Retail Customer Data	Electric 2006	Electric 2005	Electric 2004	Gas 2006	Gas 2005	Gas 2004	2006% Retail Revenues Electric	2006% Retail Revenues Gas
Residential	350	347	343	298	296	293	39%	64%
Industrial & Commercial	42	41	41	25	24	24	51%	31%
Other	6	6	6	1	1	1	10%	5%
Total Retail	398	394	390	324	321	318	100%	100%

Mission

The mission of LG&E is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

Strategy

LG&E's strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth and acquisition;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

Low Rates

LG&E believes it is well positioned in the regulated Kentucky market. LG&E continues to sustain high customer satisfaction, ranking first among all large Midwest utilities for the seventh time in eight years in the J.D. Power and Associates 2006 survey of residential electric customers. This excellent performance is balanced with cost control. The customer benefits of the LG&E culture of cost management are evident in rate comparisons among U.S. utilities. As of July 1, 2006, the average residential rate per thousand Kwh for LG&E customers was 6.54 cents versus the national average of U.S. investor-owned utilities of 10.98 cents.

LG&E must continue to address new cost pressures. The Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by LG&E in December 2003. New rates, implemented in July 2004, produced approximately $55 million of revenue for LG&E for a full year. Under the settlement agreements, the Company's base electric rates increased approximately $43 million

(7.7%) and base natural gas rates increased approximately $12 million (3.4%) annually. The 2004 increases were the first increases in electric base rates for LG&E in 13 years; the last natural gas rate increase for the Company took effect in September 2000. Competitors also face the same cost pressures that caused LG&E to initiate rate cases (e.g., pensions, benefits and reliability expenditures) and many other utility companies recently had rate cases. Despite these increases, LG&E's rates remain significantly lower than the national average.

Commodity Prices: Fuel and Electricity

Nationally, coal price increases continued during 2006, up approximately 10% from 2005, with modest increases projected over the near term. Nationwide coal stockpiles grew during 2006, due to a surplus of 37 million tons of coal production over consumption, driven by a 1.4% decline in power generation usage of coal and a 3% increase in coal supply.

During 2006, natural gas prices declined significantly from the record levels reached the prior year. During 2005, natural gas prices averaged over $8/MMBtu and spiked as high as $15/MMBtu in late September following hurricanes that interrupted natural gas production activities in the Gulf of Mexico. Prices in 2006 averaged just over $7/MMBtu and fell as low as $4/MMBtu. Price declines are in part the result of ample natural gas storage inventories, which are the result of a warmer-than-normal winter in 2005/2006 and the absence of any hurricanes during 2006 that could have otherwise disrupted natural gas supplies in the Gulf of Mexico. Although the supply situation has improved from 2005, the underlying and fundamental U.S. supply/demand imbalance shows no significant signs of immediate or significant improvement.

LG&E's average coal and natural gas purchase prices for the last five years are as follows:

	2006	2005	2004	2003	2002
Coal (per MMBtu)	$1.51	$1.32	$1.15	$1.12	$1.11
Natural gas (per MMBtu)	$7.80	$10.23	$7.18	$6.30	$4.19

Actual fuel costs associated with retail electric sales are recovered from customers through the FAC. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component.

Actual natural gas costs are recovered from customers through the GSC. The GSC also contains an incentive component, the PBR component, which is determined for each 12-month period ending October 31.

Generation Reliability

Generation reliability also remains a key aspect to meeting the Company's strategy. LG&E believes that it has maintained good performance and reliability in the key area of utility generation operation. While maintaining low cost levels, LG&E has also been able to generate increasing volumes and expect to continue high levels of availability and low outage levels. This performance is also important to maintaining margins from off-system sales.

Generation Capacity

The installation of Trimble County Units 7-10, completed in 2004, increased LG&E's total system capability by 9%. However, the joint IRP submitted by LG&E and KU to the Kentucky Commission in 2005, outlining the least cost alternative to meet Kentucky's needs, indicated the requirement for additional base-load capacity by 2010. Consequently, LG&E and KU have begun construction of another base-load coal-fired unit at the Trimble County site. LG&E believes this is the least cost alternative to meet the future needs of its customers. TC2, with a 750 MW capacity rating, will be jointly owned by LG&E (14.25%) and KU (60.75%) and IMEA and IMPA (25% owners). TC2 is expected to cost $1.1 billion and be completed by 2010. LG&E's and KU's aggregate 75% share of the total TC2 capital cost is approximately $880 million, of which LG&E will spend approximately $180 million through 2009. Through December 2006, LG&E's expenditures for TC2 have been $32 million. See Note 10 of Notes to Financial Statements.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

A CCN application for TC2 construction was filed with the Kentucky Commission in December 2004, and initial CCN applications for three transmission lines were filed in early 2005, with further applications submitted in December 2005. The proposed air permit was filed with the Kentucky Division for Air Quality in December 2004. In November 2005, the Kentucky Commission approved the application to expand the Trimble County generating station. Kentucky Commission approval for one transmission line CCN was granted in September 2005, and a ruling that a second transmission line was not subject to the CCN process was received in February 2006. The Kentucky Commission granted approval for the remaining transmission line CCN in May 2006. In August 2006, LG&E and KU obtained dismissal of a judicial review of such CCN approval by certain property owners. A further appeal of such dismissal was thereafter filed, which action remains pending. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge continued throughout 2006. A ruling may occur during the first half of 2007.

In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E intends to spend approximately $76 million to refurbish the facility and add approximately 20 Mw of generating capacity over the next six years.

Environmental Matters

In addition to the TC2 project, the second major area of utility investment is environmental expenditures. LG&E is subject to SO_2 and NOx emission limits on its electric generating units pursuant to the Clean Air Act. LG&E placed into operation significant NOx controls for its generating units prior to the 2004 summer ozone season. As of December 31, 2006, LG&E has incurred total capital costs of approximately $187 million since

2000 to reduce its NOx emissions below required levels. In addition, LG&E has incurred additional operating and maintenance costs in operating the new NOx controls.

In March 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO_2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO_2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. In March 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in 2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and CAMR establish a cap and trade framework, in which limits are set on total emissions and allowances can be bought or sold on the open market, to be used for compliance, unless the state chooses another approach. LG&E currently has flue gas desulfurization equipment on all its units but will continue to evaluate improvements to further reduce SO_2 emissions.

Kentucky law permits LG&E to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism once approved by the Kentucky Commission. A majority of the applicable environmental costs, those related to servicing our native load, including investment and operating costs, are recoverable through the ECR. The remaining costs, attributable to off-system sales, are not recoverable through the ECR, however, these costs are recoverable in coordination with a general rate case.

COMPANY STRUCTURE

As contemplated in their regulatory filings in connection with the E.ON acquisition of Powergen in 2002, E.ON, Powergen and E.ON U.S. completed an administrative reorganization to move the LG&E Energy Corp. group from an indirect Powergen subsidiary to an indirect E.ON subsidiary. This reorganization was effective in March 2003. In early 2004, E.ON U.S. began direct reporting arrangements to E.ON.

Effective December 30, 2003, LG&E Energy LLC became the successor, by assignment and subsequent merger, to all the assets and liabilities of LG&E Energy Corp.

Effective December 1, 2005, LG&E Energy LLC was renamed E.ON U.S. LLC.

LG&E has continued its separate identity and the preferred stock and debt securities of LG&E were not affected by these transactions.

RESULTS OF OPERATIONS

Net Income

LG&E's net income in 2006 decreased $12 million (9%) compared to 2005. The primary drivers of the decrease were lower wholesale and retail electric sales volumes due to cooler summer weather in 2006 and increased interest expense. Partially offsetting the lower revenues were lower operation and maintenance expenses primarily from the expiration of the VDT amortization and lower costs associated with MISO Day 2.

LG&E's net income related to the electric business in 2006 decreased $12 million (10%) compared to 2005. Electric operating revenues decreased $44 million (4%) primarily due to lower wholesale and retail sales volumes associated with cooler summer weather in 2006 and lower MISO revenues. Partially offsetting the lower revenues were lower operation and maintenance expenses of $20 million (8%) primarily from the expiration of the VDT amortization and lower costs from MISO Day 2. Combined fuel and power purchased expenses in 2006 also declined $15 million (4%) from 2005. Interest expense increased $3 million (10%) in 2006.

LG&E's net income related to the natural gas business was unchanged from 2005.

LG&E's net income in 2005 increased $33 million (34%) compared to 2004. The increase resulted primarily from higher electric revenues due to increased retail sales volumes resulting from warmer summer weather and increased base rates implemented for service rendered on and after July 1, 2004. Wholesale revenues also increased due to higher volumes and higher prices. These increases were partially offset by increased fuel and power purchased costs largely due to MISO Day 2 costs.

LG&E's net income in 2005 related to the electric business increased $32 million (37%) compared to 2004. Electric operating revenues increased $171 million (21%), partially offset by higher fuel for electric generation and power purchased of $123 million (41%). Income tax and depreciation expense increased $12 million (25%) and $6 million (6%), respectively.

LG&E's net income in 2005 related to the natural gas business increased $1 million (11%) compared to 2004. Natural gas operating revenues increased $80 million (22%) offset by higher natural gas supply expenses of $73 million (27%). Other natural gas operation and maintenance expenses increased $4 million (7%) and depreciation expense increased $1 million (6%).

Revenues

The following table presents a comparison of operating revenues for the years 2006 and 2005 with the immediately preceding year.

(in millions)	Increase (Decrease) From Prior Period			
	Electric Revenues		Gas Revenues	
Cause	2006	2005	2006	2005
Retail sales:				
Fuel and gas supply adjustments	$ 23	$ 23	$ 20	$ 67
LG&E/KU merger surcredit	3	(1)	-	-
Environmental cost recovery surcharge	3	10	-	-
Earnings sharing mechanism	-	(6)	-	-
Weather normalization adjustment	-	-	4	(3)
Rate changes	-	25	-	5
Variation in sales volumes and other	(18)	27	(48)	(1)
Total retail sales	11	78	(24)	68
Wholesale sales	(35)	73	(18)	12
MISO Day 2	(20)	18	-	-
Other	-	2	-	-
Total	$(44)	$171	$(42)	$ 80

Electric revenues in 2006 decreased $44 million (4%) primarily due to:

- Decreased wholesale sales ($35 million) primarily resulting from lower sales volumes due to decreased regional demand
- Decreased MISO related revenue ($20 million) due to exit from the MISO
- Decreased sales volumes and other ($18 million) resulting from a 12% decrease in cooling degree days in 2006 as compared to the same period in 2005 (the number of cooling degree days in 2006 was 9% below the 20-year average)
- Increased fuel costs ($23 million) billed to customers through the FAC
- Increased revenue due to lower merger surcredit given to customers based on lower sales volumes ($3 million)
- Increased ECR surcharge ($3 million) billed to customers

Electric revenues in 2005 increased $171 million (21%) primarily due to:

- Increased wholesale sales ($73 million) primarily due to an 11% higher sales volume due to increased regional demand and a 29% increase in prices caused by higher fuel prices
- Increased retail sales volumes and other ($27 million) primarily due to warmer summer weather resulting from a 13% increase in cooling degree days (the number of cooling degree days in 2005 was 14% above the 20-year average)
- Increased rates ($25 million) implemented in July 2004
- Increased fuel costs ($23 million) billed to customers through the FAC
- Increased MISO related revenue ($18 million) due to the inception of MISO Day 2 on April 1, 2005
- Increased ECR surcharge ($10 million) billed to customers
- Decreased ESM revenues ($6 million) billed to customers due to termination of the ESM program

Natural gas revenues in 2006 decreased $42 million (10%) primarily due to:

- Decreased sales volumes and other ($48 million) resulting from a 9% decrease in heating degree days in 2006 as compared to the same period in 2005 (the number of heating degree days in 2006 was 10% below the 20-year average)
- Decreased wholesale sales ($18 million) due to limited market opportunities to sell natural gas off-system
- Increased natural gas supply costs ($20 million) billed to customers through the GSC
- Increased weather normalization revenue ($4 million)

Natural gas revenues in 2005 increased $80 million (22%) primarily due to:

- Increased natural gas supply costs ($67 million) billed to customers through the GSC
- Increased wholesale sales ($12 million) due to increased market opportunities to sell natural gas off-system
- Increased rates ($5 million) implemented in July 2004
- Decreased weather normalization revenue ($3 million)

Expenses

Fuel for electric generation and natural gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $12 million (4%) in 2006 primarily due to:

- Increased cost of fuel burned ($15 million) due to higher prices for coal
- Decreased generation ($3 million) due to lower demand

Fuel for electric generation increased $74 million (36%) in 2005 primarily due to:

- Increased cost of fuel burned ($62 million) due to the MISO's dispatch of natural gas-fired units and higher coal and natural gas prices
- Increased generation ($12 million) due to increased demand and the dispatch of units for MISO Day 2

Power purchased expense decreased $27 million (19%) in 2006 primarily due to:

- Decreased volumes purchased ($35 million) due to lower demand
- Increased unit cost per Mwh of purchases ($9 million) due to higher fuel prices

Power purchased expense increased $49 million (53%) in 2005 primarily due to:

- Increased unit cost per Mwh of purchases ($41 million) due to higher fuel prices
- Increased volumes purchased ($8 million) due to increased demand and unit outages
    - Purchased power costs from the MISO due to unit outages totaled $10 million

Gas supply expenses decreased $44 million (13%) in 2006 primarily due to:

- Decreased volumes of natural gas delivered to the distribution system ($64 million) due to milder winter weather
- Increased cost of net gas supply ($20 million) due to higher inventory unit cost

Gas supply expenses increased $73 million (27%) in 2005 primarily due to:

- Increased cost of net gas supply ($62 million) due to the increase in natural gas prices
- Increased volumes of natural gas delivered to the distribution system ($12 million)

Other operation and maintenance expenses decreased $20 million (6%) in 2006 primarily due to decreased other operation expenses ($37 million) partially offset by increased maintenance expenses ($15 million) and property and other taxes ($1 million).

Other operation expenses decreased $37 million (16%) in 2006 primarily due to:

- Decreased administrative and general expense ($21 million) primarily due to the completion of the VDT amortization
- Decreased other power supply costs ($11 million) resulting from lower MISO Day 2 costs
- Decreased electrical transmission costs ($9 million) due to lower MISO related expenses
- Increased steam generation expense ($2 million) primarily for scrubber reactant and waste disposal
- Increased distribution operations costs ($1 million) primarily due to higher storm restoration costs
- Increased underground storage costs ($1 million) due to higher costs of materials and contractor expenses

Maintenance expenses increased $15 million (24%) in 2006 primarily due to:

- Increased steam maintenance ($8 million) primarily related to Mill Creek Unit 4
- Increased distribution maintenance ($5 million) primarily related to vegetation management and storm restoration
- Increased administrative and general maintenance ($2 million)

Other operation and maintenance expenses increased $3 million (1%) in 2005 primarily due to higher other operation expenses ($11 million) and higher property taxes ($2 million), partially offset by lower maintenance expenses ($9 million).

Other operation expenses increased $11 million (5%) in 2005 primarily due to:

- Increased other power supply costs ($17 million) due largely to MISO Day 2 costs ($18 million) for administrative and allocated charges from the MISO for Day 2 operations
- Increased steam generation expense ($4 million) primarily for scrubber reactant and waste disposal
- Increased employee benefit costs ($3 million)
- Increased customer service and collection expenses ($2 million)
- Decreased transmission costs ($11 million), due largely to MISO Day 2 ($13 million). Prior to the MISO Day 2 market, most bilateral transactions required the purchase of transmission; however, with the Day 2 market, most transactions are handled directly with the MISO and no additional transmission is necessary
- Decreased distribution operating costs ($5 million) due to fewer storms

Maintenance expenses decreased $9 million (13%) in 2005 primarily due to:

- Decreased distribution maintenance ($9 million) due to fewer storms
- Decreased steam generation expense ($2 million)
- Increased administrative and general maintenance ($1 million)

Other expense (income) – net decreased $4 million in 2006 primarily due to:

- Decreased other income ($2 million)
- Increased other expense ($2 million)

Other expense (income) - net increased $4 million in 2005 primarily due to:

- Increased other income ($2 million)
- Decreased other expense ($1 million)

Interest expense, including interest expense to affiliated companies, increased $4 million (11%) in 2006 primarily due to:

- Increased interest rates on variable rate debt ($5 million)
- Increased interest on tax deficiencies ($2 million)
- Decreased interest expense on swaps ($2 million)

Interest expense, including interest expense to affiliated companies, increased $4 million (12%) in 2005 primarily due to:

- Increased interest rates on variable rate debt ($6 million)
- Increased borrowing from the money pool ($2 million)
- Decreased cost of interest rate swaps ($3 million)
- Decreased costs due to refinancing fixed rate debt with variable rate debt ($1 million)

Details of exposure to variable interest rates on long-term debt are shown in the table below:

	2006	2005	2004
Debt exposed to interest rate risk (in millions)	$363	$363	$306
Debt exposed to interest rate risk as a percentage of long-term debt	44.3%	44.2%	35.1%
Weighted average interest rate on variable rate debt for the year	3.47%	2.49%	1.28%
Weighted average interest rate on total long-term debt at year-end, including expense amortization and interest rate swaps	4.33%	4.13%	3.92%

See Note 7 of Notes to Financial Statements under Item 8.

Variations in income tax expenses are largely attributable to changes in pre-tax income. See Note 6 of Notes to Financial Statements under Item 8.

The rate of inflation may have a significant impact on LG&E's operations, its ability to control costs and the need to seek timely and adequate rate adjustments. However, relatively low rates of inflation in the past few years have moderated the impact on current operating results.

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the following paragraphs. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment. See also Note 1 of Notes to Financial Statements under Item 8.

Unbilled Revenue. At each month-end LG&E prepares a financial estimate that projects electric and natural gas usage by customers that has not been billed. The estimated usage is based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. At December 31, 2006, a 10% change in these estimated quantities would cause revenue and accounts receivable to change by approximately $5 million ($3 million for electric usage and $2 million for natural gas usage). See also Note 1 of Notes to Financial Statements under Item 8.

Allowance for Doubtful Accounts. At December 31, 2006 and 2005, the LG&E allowance for doubtful accounts was $2 million and $1 million, respectively. The allowance is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Pension and Postretirement Benefits. LG&E has both funded and unfunded non-contributory defined benefit pension and postretirement benefit plans that together cover substantially all of its employees. The plans are accounted for under SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amended SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* and SFAS No. 87, *Employers' Accounting for Pensions*.

The pension and other postretirement benefit plan costs and liabilities are determined on an actuarial basis and are dependent upon numerous economic assumptions, such as discount rates, rates of compensation increases, estimates of the expected return on plan assets and health care cost trend rates and demographic and economic assumptions. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower health care costs or turnover or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of expenses recorded in future periods. The underlying assumptions and estimates related to the pension and postretirement benefit plan costs and liabilities are reviewed annually.

The assumed discount rate, expected return on assets and rate of compensation increases generally have the most significant impact on the pension costs and liabilities. The discount rate is used to calculate the actuarial present value of the benefits provided by the plans. LG&E bases its discount rate assumption on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Investors Services, Inc. Aa Corporate Bond Rate in December. The Mercer Pension Discount Yield Curve provides a more refined estimate of the discount by matching the plan's specific cash flow to a spot-rate yield curve based on high-quality, fixed-income investments.

The expected long-term rate of return on assets is used to calculate the net periodic pension costs for the plans. To develop the expected long-term rate of return on assets assumption, consideration is given to the current level of expected returns on risk free investments (primarily government bonds), the historical performance of the asset managers versus their respective benchmarks, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on a target asset allocation. For 2006, the actual return on pension assets was favorable compared to the assumed expected rate of return.

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

- A 1% change in the assumed discount rate could have an approximate $47 million positive or negative impact to the 2006 accumulated benefit obligation and an approximate $51 million positive or negative impact to the 2006 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2006 pension expense.

Compensation rate increases are used to calculate service costs and the projected benefit obligation. Such rates are based on a review of LG&E's historical salaries, promotion and bonus increases. For 2006 net periodic pension benefit costs, LG&E used an assumption of 5.25%.

The assumptions related to the discount rate, retirement, turnover and healthcare cost trends, which represent expected rates of increase in health care claim payments, generally have the most significant impact on postretirement benefit plan costs and liabilities. Unlike pensions, however, assumptions about per capita claims cost by age and participation rates also significantly impact postretirement liability computations. A 1% change in the healthcare cost trend rates could have a positive or negative impact on the 2006 postretirement benefit obligation and postretirement expense of approximately $3 million and less than $1 million, respectively.

Additionally, demographic and other economic assumptions affect the pension and postretirement computations Beginning with the December 31, 2005 liability, LG&E replaced the 1983 Group Annuity Mortality tables for males and females with the RP 2000 combined tables for males and females projected to 2006. These updated mortality tables were used for the 2006 calculation and will be used in subsequent periods.

The benefit obligation is compared with the plan asset values to determine a net position. Asset values are increased primarily by actual rates of return on plan assets and by employer contributions. For an explanation of the investment policy including targeted asset allocations, see Note 5 of Notes to Financial Statements under Item 8.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the IRC. In accordance with these guidelines, LG&E made discretionary contributions to the pension plans of $18 million in 2006 and $35 million in 2004. No contributions were made in 2005. LG&E anticipates making additional contributions as deemed necessary. Additionally, LG&E made contributions of approximately $11 million, $10 million and $9 million to the postretirement plans in 2006, 2005 and 2004, respectively. LG&E may continue to make subsequent contributions in accordance with the maximum funding limitation governed by tax laws. In January 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. In 2007, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law. See Note 15 of Notes to Financial Statements under Item 8.

As prescribed by SFAS No. 87, LG&E was required to recognize an additional minimum pension liability of $19 million during 2005 since the fair value of the plan assets was less than the accumulated benefit obligation at th time. This additional minimum pension liability was recorded as a reduction to other comprehensive income and did not affect net income. Historically low corporate bond rates, used to determine the discount rate, significantly increased the potential value of the pension liabilities above the actual value of the plan assets. These provisions of SFAS No. 87 were not applicable to 2006 due to the implementation of SFAS No. 158.

Should poor market conditions return or should interest rates decline, LG&E's unfunded accumulated benefit obligations and future pension expense could increase. The Company believes that such increases are recoverable in whole or in part under future rate proceedings or mechanisms.

See also Notes 5 and 13 of Notes to Financial Statements under Item 8.

Regulatory Mechanisms. Judgments and uncertainties include future regulatory decisions, the impact of deregulation and competition on the ratemaking process and external regulatory decisions. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections. Management believes, based on Kentucky Commission Orders and historical precedents, the existing regulatory assets and liabilities are probable of recovery. This determination reflects the current regulatory climate in the state. If future recovery of costs ceases to be probable, the assets and liabilities would be required to be recognized in current period earnings. See also Note 2 of Notes to Financial Statements under Item 8.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes*. In accordance with this statement, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain.

To provide for these uncertainties or exposures, an allowance is maintained for tax contingencies based on management's best estimate of probable loss. Tax contingencies are analyzed periodically and adjustments are made when events occur to warrant a change. In September 2005, LG&E received notice from the Congressional Joint Committee on Taxation approving the Internal Revenue Service's audit of LG&E's income tax returns for the periods December 1999 through December 2003. As a result of resolving numerous tax matters during these periods, LG&E reduced income tax accruals by $4 million during 2005.

H. R. 4520, known as the "American Jobs Creation Act of 2004" allows electric utilities to take a deduction of up to 3% of their qualified production activities income starting in 2005. This deduction reduced LG&E's effective tax rate by less than 1% for 2006.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan," was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate change, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences since the new statutory rates are lower than the rates were when the deferred tax liability originated. This excess amount is referred to as excess deferred income taxes. In June 2005 and December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability ($16 million) for its net excess deferred income tax balances. Under this accounting treatment, LG&E will amortize its depreciation-related excess deferred income tax balances under the average rate assumption method. The average rate assumption method matches the amortization of the excess deferred income taxes with the life of the timing differences to which it relates. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2005 and 2006.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred taxes.

For further discussion of income tax issues, see Notes 1 and 6 of Notes to Financial Statements under Item 8.

RECENT ACCOUNTING PRONOUNCEMENTS

The following are recent accounting pronouncements affecting LG&E:

FIN 48

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. FIN 48 clarifies the accounting for the uncertainty of income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position will be measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows is not expected to be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. LG&E is now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, which is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amended SFAS No. 87, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination*

Benefits, SFAS No. 106 and SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides guidance to regulated utilities for deferring costs that would otherwise be charged to expense or equity by non-regulated enterprises. In applying the provisions of this statement to the requirements of SFAS No. 158, LG&E recorded a regulatory asset representing the adjustment to the pension liability in recognizing the funded status of the pension liability. This adjustment would have been represented in Accumulated Other Comprehensive Income without the application of SFAS No. 71.

LG&E has adopted SFAS No. 158 effective for the fiscal year ending December 31, 2006. The incremental effects of applying SFAS No. 158 are shown in the following table:

(in millions)	Before Adoption of SFAS No. 158*	Adjustments	After Adoption of SFAS No. 158
Accrued pension and postretirement liability-noncurrent....	$ (102)	$ (47)	$ (149)
Accrued pension and postretirement liability-current..........	-	(2)	(2)
Pension and postretirement regulatory asset........................	77	49	126

* Balances before the application of SFAS No. 158 include the effects of 2006 plan experience and changes in actuarial assumptions on the additional minimum liability, coupled with the regulatory impacts of SFAS No. 71.

LIQUIDITY AND CAPITAL RESOURCES

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

As of December 31, 2006, LG&E is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $246 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Backup credit facilities totaling $185 million are in place to fund such tenders, if necessary. LG&E has never needed to access these facilities. LG&E expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $320 million, $150 million and $171 million in 2006, 2005 and 2004, respectively.

The 2006 increase of $170 million was primarily the result of increases in cash due to changes in:

- Accounts receivable ($183 million) primarily from decreased natural gas prices and milder December weather
- Materials and supplies ($107 million) primarily resulting from decreased natural gas prices
- Property and other taxes payable ($21 million)
- GSC recovery ($20 million)

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

- Accounts payable ($102 million) due to lower natural gas prices
- Earnings, net of non-cash items ($22 million)
- Pension and postretirement funding ($19 million)
- Payment of the fee required to exit the MISO ($13 million)
- ECR recovery ($7 million)

The 2005 decrease of $21 million was primarily the result of decreases in cash due to changes in:

- Materials and supplies ($61 million) largely the result of increased coal and natural gas prices
- Accounts receivable ($17 million) primarily due to colder December weather
- Gas supply recovery ($13 million) primarily due to higher natural gas prices
- ESM recovery ($8 million) due to termination of the ESM program
- Property and other taxes payable ($7 million)

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

- Accounts payable ($49 million) primarily from the increase in natural gas prices
- Pension and postretirement funding ($34 million)

Investing Activities

LG&E's primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $146 million, $139 million and $148 million in 2006, 2005 and 2004, respectively. LG&E expects its capital expenditures for the three-year period ending December 31, 2009, to total approximately $665 million, which consists primarily of construction estimates associated with the construction of TC2 totaling approximately $150 million (including $40 million for environmental controls), other environmental control equipment of approximately $80 million, redevelopment of the Ohio Falls hydro facility totaling approximately $30 million and on-going construction related to generation and distribution assets.

Net cash used for investing activities in 2006 increased $9 million in 2006 compared to 2005 and decreased $21 million in 2005 compared to 2004, primarily due to the level of construction expenditures.

Financing Activities

Net cash outflows for financing activities were $173 million, $12 million and $7 million in 2006, 2005 and 2004, respectively.

Redemptions and maturities of long-term debt for 2006, 2005 and 2004 are summarized below:

($ in millions) Year	 Description	Principal Amount	 Rate	Secured/ Unsecured	 Maturity
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2006
2005	Pollution control bonds	$ 40	5.90%	Secured	Apr 2023
2005	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2005	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2005
2004	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2004	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2004

LG&E did not issue any long-term debt in 2006. Issuances of long-term debt for 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2005	Pollution control bonds	$ 40	Variable	Secured	Feb 2035
2004	Due to Fidelia	$ 25	4.33%	Secured	Jan 2012
2004	Due to Fidelia	$100	1.53%	Secured	Jan 2005

See also Notes 7 and 15 of Notes to Financial Statements under Item 8.

Future Capital Requirements

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 9 of Notes to Financial Statements under Item 8 for current commitments. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E maintains a series of bilateral credit facilities with banks totaling $185 million. Several intercompany financing arrangements are also available. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 8 of Notes to Financial Statements under Item 8.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes issuance of long-term debt. In February 2006, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings from Moody's Investor Services, Inc. ("Moody's") and Standard and Poor's Rating Services ("S&P") as of December 31, 2006, were:

	Moody's	S&P
First mortgage bonds	A1	A-
Preferred stock	Baa1	BBB-
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

equipment or machinery used in the industry, as well as labor rates, in elements of its capital construction or operating and maintenance activities. In some cases, elements of these risks are mitigated via periodic rate or other regulatory recovery mechanisms or via the terms of applicable contractual arrangements.

Energy & Risk Management Activities

LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities for 2006 and 2005:

(in millions)	2006	2005
Fair value of contracts at beginning of period, net asset	$ 1	$ -
Fair value of contracts when entered into during the period	3	1
Contracts realized or otherwise settled during the period	(6)	-
Changes in fair values due to changes in assumptions	3	-
Fair value of contracts at end of period, net asset	$ 1	$ 1

The fair value of LG&E's energy trading and risk management contracts as of December 31, 2006 and 2005, was less than $1 million. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during both years. The outstanding mark-to-market value is sensitive to changes in prices, price volatilities and interest rates. The Company estimates that a movement in prices of $1 and a change in interest and volatilities of 1% would result in a change of less than $1 million. All contracts outstanding at December 31, 2006 and 2005 have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

RATES AND REGULATION

LG&E is subject to the jurisdiction of the Kentucky Commission in virtually all matters related to electric and natural gas utility regulation, and as such, its accounting is subject to SFAS No. 71. Given LG&E's competitive position in the marketplace and the status of regulation in Kentucky, LG&E has no plans or intentions to discontinue its application of SFAS No. 71. See Notes 2 and 9 of Notes to Financial Statements under Item 8 for a discussion of rates and regulation.

FUTURE OUTLOOK

Competition and Customer Choice

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

Over the last several years, LG&E has taken many steps to maintain efficient rate structures while achieving high levels of customer satisfaction, including: an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; and continuous modifications of its organizational structure. LG&E also strives to control costs through competitive bidding and process improvements. LG&E's performance in national customer satisfaction surveys continues to be high.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

See Management's Discussion and Analysis of Financial Condition and Results of Operations, Market Risks, under Item 7.

Louisville Gas and Electric Company
Balance Sheets
(Millions of $)

	December 31 2006	2005
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 7	$ 7
Accounts receivable - less reserve of $2 million in 2006 and $1 million in 2005 (Note 1)	165	231
Accounts receivable from affiliated companies (Note 12)	19	36
Materials and supplies (Note 1):		
Fuel (predominantly coal)	38	39
Gas stored underground	83	125
Other materials and supplies	30	28
Prepayments and other current assets	6	6
Total current assets	348	472
Utility plant, at original cost (Note 1):		
Electric	3,200	3,180
Gas	526	511
Common	180	199
Total utility plant, at original cost	3,906	3,890
Less: reserve for depreciation	1,534	1,509
Total utility plant, net	2,372	2,381
Construction work in progress	217	159
Total utility plant and construction work in progress	2,589	2,540
Deferred debits and other assets:		
Restricted cash (Note 1)	16	10
Regulatory assets (Notes 1 and 2):		
Pension and postretirement benefits	126	-
Other	93	84
Intangible pension asset	-	31
Other assets	12	9
Total deferred debits and other assets	247	134
Total Assets	$3,184	$3,146

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

Louisville Gas and Electric Company
Balance Sheets (continued)
(Millions of $)

	December 31 2006	2005
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long term debt (Note 7)	$ 248	$ 248
Notes payable to affiliated companies (Notes 8 and 12)	68	141
Accounts payable	103	141
Accounts payable to affiliated companies (Note 12)	55	56
Customer deposits	18	17
Other current liabilities	40	17
Total current liabilities	532	620
Long-term debt:		
Long-term bonds (Note 7)	328	328
Long-term notes to affiliated company (Note 7)	225	225
Mandatorily redeemable preferred stock (Note 7)	19	20
Total long-term debt	572	573
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	333	322
Accumulated provision for pensions and related benefits (Note 5)	149	143
Investment tax credit, in process of amortization	41	42
Asset retirement obligations	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	232	219
Regulatory liability deferred income taxes	54	42
Other regulatory liabilities	35	20
Other liabilities	44	41
Total deferred credits and other liabilities	916	856
Commitments and contingencies (Note 9)		
Cumulative preferred stock	70	70
COMMON EQUITY:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated other comprehensive income (Note 13)	(9)	(58)
Retained earnings	639	621
Total common equity	1,094	1,027
Total Liabilities and Equity	$3,184	$3,146

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 117	$ 129	$ 96
Items not requiring cash currently:			
Depreciation and amortization	124	119	117
Deferred income taxes - net	22	(14)	5
Investment tax credit - net	(1)	(4)	(4)
VDT amortization	8	30	30
Provision for pension and postretirement plans	(13)	14	25
Other	3	8	1
Change in certain current assets and liabilities:			
Accounts receivable	83	(100)	(83)
Materials and supplies	41	(66)	(5)
Accounts payable	(47)	55	6
Accrued income taxes	8	-	(5)
Property and other taxes payable	14	(7)	-
Prepayments and other	2	4	7
Pension and postretirement funding	(29)	(10)	(44)
Gas supply clause receivable, net	17	(3)	10
Litigation settlement	-	-	7
Earnings sharing mechanism receivable	-	2	10
MISO exit fee	(13)	-	-
Environmental cost recovery mechanism receivable	(7)	-	-
Other	(9)	(7)	(2)
Net cash provided by operating activities	320	150	171
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(146)	(139)	(148)
Change in restricted cash	(1)	1	(11)
Net cash used for investing activities	(147)	(138)	(159)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings from affiliated company	-	-	125
Repayment of long-term borrowings from affiliated company	-	(50)	(50)
Short-term borrowings from affiliated company	700	789	553
Repayment of short-term borrowings from affiliated company	(773)	(706)	(575)
Issuance of pollution control bonds	-	40	-
Issuance expense on pollution control bonds	-	(2)	-
Retirement of pollution control bonds	-	(40)	-
Retirement of mandatorily redeemable preferred stock	(1)	(1)	(1)
Payment of dividends	(99)	(42)	(59)
Net cash used for financing activities	(173)	(12)	(7)
Change in cash and cash equivalents	-	-	5
Cash and cash equivalents at beginning of year	7	7	2
Cash and cash equivalents at end of year	$ 7	$ 7	$ 7
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$64	$83	$52
Interest on borrowed money	24	21	18
Interest to affiliated companies on borrowed money	11	13	11

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

Louisville Gas and Electric Company
Statements of Capitalization
(Millions of $)

	Shares Outstanding	Current Redemption Price	December 31 2006	December 31 2005
LONG-TERM DEBT (Note 7):				
Pollution control series:				
S due September 1, 2017, variable %			$ 31	$ 31
T due September 1, 2017, variable %			60	60
U due August 15, 2013, variable %			35	35
Y due May 1, 2027, variable %			25	25
Z due August 1, 2030, variable %			83	83
AA due September 1, 2027, variable %			10	10
BB due September 1, 2026, variable %			23	23
CC due September 1, 2026, variable %			28	28
DD due November 1, 2027, variable %			35	35
EE due November 1, 2027, variable %			35	35
FF due October 1, 2032, variable %			42	42
GG due October 1, 2033, variable %			128	128
HH due February 1, 2035, variable %			40	40
Notes payable to Fidelia:				
Due January 16, 2012, 4.33%, secured			25	25
Due April 30, 2013, 4.55%, unsecured			100	100
Due August 15, 2013, 5.31%, secured			100	100
Mandatorily redeemable preferred stock:				
$5.875 series, outstanding shares of 200,000 in 2006 and 212,500 in 2005			20	21
Total long-term debt outstanding			820	821
Less current portion of long-term debt			248	248
Long-term debt			572	573
CUMULATIVE PREFERRED STOCK:				
$25 par value, 1,720,000 shares authorized - 5% series	860,287	$28.00	21	21
Without par value, 6,750,000 shares authorized - Auction rate	500,000	$100.00	49	49
			70	70
COMMON EQUITY:				
Common stock, without par value -				
Authorized 75,000,000 shares, outstanding 21,294,223 shares			424	424
Additional paid-in capital			40	40
Accumulated other comprehensive income (Note 13)			(9)	(58)
Retained earnings			639	621
Total common equity			1,094	1,027
Total capitalization			$1,736	$1,670

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

Note 1 - Summary of Significant Accounting Policies

LG&E, incorporated in 1913 in Kentucky, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E supplies natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and combustion turbines.

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

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2006 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. LG&E is subject to SFAS No. 71, under which costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected return to customers in future rates. LG&E's current or expected recovery of deferred costs and expected return of deferred credits is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC or the Kentucky Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. LG&E considers all debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The amounts charged to expense to accrue for estimated bad debts were $4 million, $3 million and $2 million and the net of accounts written off against the reserve were $3 million, $3 million and $5 million in 2006, 2005 and 2004, respectively.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies at cost and are not currently traded by LG&E. At December 31, 2006 and 2005, the emission allowances inventory was less than $1 million.

Other Property and Investments. Other property and investments on the balance sheet consists of LG&E's investment in OVEC and non-utility plant. LG&E and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

As of December 31, 2006 and 2005, LG&E's investment in OVEC totaled less than $1 million. LG&E is not the primary beneficiary of OVEC; therefore, it is not consolidated into the financial statements of LG&E and is accounted for under the cost method of accounting. LG&E's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, LG&E anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding LG&E's ownership interest and power purchase rights.

Utility Plant. LG&E's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. LG&E has not recorded any allowance for funds used during construction, in accordance with Kentucky Commission regulations.

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

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2006 (3.0% electric, 2.9% gas, and 7.8% common); 3.2% in 2005 (3.0% electric, 2.4% gas and 8.0% common); and 3.1% for 2004 (2.9% electric, 2.8% gas and 7.6% common), of average depreciable plant. Of the amount provided for depreciation, at December 31, 2006, approximately 0.4% electric, 0.9% gas and 0.4% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation, at December 31, 2005, approximately 0.4% electric, 0.8% gas and 0.02% common were related to the retirement, removal and disposal costs of long lived assets.

Restricted Cash. A deposit in the amount of $11 million, used as collateral for an $83 million interest rate swap expiring in 2020, is classified as restricted cash on LG&E's balance sheet. An advance deposit of $5 million from the Louisville Arena Authority is also restricted for equipment purchases related to relocating transmission facilities.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109. In accordance with this statement, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. To provide for these uncertainties or exposures, an allowance is maintained for tax contingencies based on management's best estimate of probable loss. Tax contingencies are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

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

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E and KU received an investment tax credit related to TC2, for more details, see Note 6, Income Taxes.

Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of LG&E's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. LG&E accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were approximately $53 million and $82 million at December 31, 2006 and 2005, respectively.

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

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

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting LG&E:

FIN 48

In July 2006, the FASB issued FIN 48, which clarifies the accounting for the uncertainty of income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position will be measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position, and cash flows is not expected to be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. LG&E is now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, which is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities, and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amended SFAS No. 87, SFAS No. 88, SFAS No. 106 and SFAS No. 132.

SFAS No. 71, provides guidance to regulated utilities for deferring costs that would otherwise be charged to expense or equity by non-regulated enterprises. In applying the provisions of this statement to the requirements of SFAS No. 158, LG&E recorded a regulatory asset representing the adjustment to the pension liability in recognizing the funded status of the pension liability. This adjustment would have been represented in Accumulated Other Comprehensive Income without the application of SFAS No. 71.

LG&E has adopted SFAS No. 158 effective for fiscal year ending December 31, 2006. The incremental effects of applying SFAS No. 158 are shown in the following table:

(in millions)	Before Adoption of SFAS No. 158*	Adjustments	After Adoption of SFAS No. 158
Accrued pension and postretirement liability-noncurrent	$ (102)	$ (47)	$ (149)
Accrued pension and postretirement liability-current	-	(2)	(2)
Pension and postretirement regulatory asset	77	49	126

* Balances before the application of SFAS No. 158 include the effects of 2006 plan experience and changes in actuarial assumptions on the additional minimum liability, coupled with the regulatory impacts of SFAS No. 71.

Note 2 - Rates and Regulatory Matters

The Kentucky Commission has regulatory jurisdiction over LG&E's retail rates and service, and over the issuance of certain of its securities. The Kentucky Commission has the ability to examine the rates LG&E charges its retail customers at any time.

Electric and Gas Rate Cases

In December 2003, LG&E filed an application with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates. LG&E asked for general adjustments in electric and natural gas rates based on the twelve month test period ended September 30, 2003. The revenue increases requested were $64 million for electric and $19 million for natural gas. In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's annual electric base rates of approximately $43 million (8%) and annual natural gas base rates of approximately $12 million (3%). The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of LG&E, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between LG&E and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission further agreed to hold in abeyance further proceedings in the rate cases, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by LG&E in its conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate cases. To date, LG&E has neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an Order noting completion of its inquiry, including review of the AG's investigative report. The Order concluded that no improper communications occurred during the rate proceedings. Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's favor consistent with the original rate increase order.

LG&E believes no improprieties have occurred in its communications with the Kentucky Commission and has cooperated with the proceedings before the AG and the Kentucky Commission. LG&E is currently unable to predict whether there will be any remaining actions or consequences as a result of the AG's report or investigation.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of December 31:

(in millions)	2006	2005
ARO	$ 22	$ 20
Gas supply adjustments	21	25
Unamortized loss on bonds	20	21
MISO exit	13	-
ECR	9	2
Merger surcredit	2	3
VDT costs	-	8
Other	6	5
Subtotal	93	84
Pension and postretirement benefits	126	-
Total regulatory assets	$219	$ 84
Accumulated cost of removal of utility plant	$232	$219
Deferred income taxes - net	54	42
Gas supply adjustments	31	18
Other	4	2
Total regulatory liabilities	$321	$281

LG&E does not currently earn a rate of return on the gas supply adjustments, FAC (included in other regulatory assets) and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory liabilities include DSM and MISO Schedule 10. See Note 1, Summary of Significant Accounting Policies.

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

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

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Accumulated Cost of Removal
As of December 31, 2004	$ 3	$ (11)	$ 7	$ -
FIN 47 net asset additions	1	(15)	12	3
ARO accretion	-	(1)	1	-
As of December 31, 2005	4	(27)	20	3
ARO accretion	-	(1)	2	-
As of December 31, 2006	$ 4	$ (28)	$ 22	$ 3

ARO depreciation, removal cost incurred and cost of removal depreciation during 2005 and 2006 and FIN 47 net asset additions for 2006 were less than $1 million. In addition, regulatory liabilities and cost of removal depreciation as of December 31, 2005 and 2006 were less than $1 million.

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2006 and $1 million in 2005 for the ARO accretion and depreciation expense. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory asset or liability pursuant to regulatory treatment prescribed under SFAS No. 71. For the years ended December 31, 2006 and 2005, LG&E recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

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

Gas Supply Cost Adjustments. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters. In late 2005, as wholesale natural gas prices began to decrease, a one-time interim adjustment in the GSC was requested by LG&E and approved by the Kentucky Commission to pass the lower natural gas costs to the customers on a more timely basis.

LG&E's GSC was modified in 1997 to incorporate an experimental natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this experimental PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2006, LG&E achieved $17 million in savings. Of that total savings amount, LG&E's portion was approximately $5 million and the ratepayers' portion was approximately $12 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with ratepayers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with ratepayers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

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

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, LG&E has been operating under a FERC-approved open access-transmission tariff. LG&E has further contracted with the Tennessee Valley Authority to act as its reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements, with respect to transmission matters.

LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, LG&E provided notice to the MISO of its disagreement with the calculation of the exit fee. LG&E and the MISO continue to discuss the specifics of the exit fee calculation. The outcome of these discussions and the eventual settlement of the disputed amount cannot be estimated at this time. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO Schedule 10 charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next rate case; however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

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

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. A final order was received in January 2007, approving the changes and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

In June 2004, the Kentucky Commission issued an Order approving a settlement agreement that, among other things, revised the rate of return for LG&E's post-1995 plan. The Order also approved the elimination of LG&E's 1995 plan from its ECR billing mechanism, with all remaining costs associated with that plan to be included in their entirety in base rates.

In December 2004, LG&E filed an application with the Kentucky Commission to amend its compliance plan to allow recovery of costs associated with new and additional environmental compliance facilities, including the expansion of the landfill facility at the Mill Creek station. The estimated capital cost of the additional facilities over the next three years is approximately $25 million. A final Order was issued in June 2005, granting approval of the amendments to LG&E's compliance plan.

In June 2006, LG&E filed an application to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2007 through 2009 is approximately $50 million, of which $40 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006 approving all expenditures and investments as submitted.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, LG&E estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by LG&E and KU, over a five-year period. The surcredit was allocated 47% to LG&E and 53% to KU. In that same order, the Kentucky Commission required LG&E and KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. The Companies submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. LG&E's merger surcredit will remain in place for another five-year term beginning July 1, 2003 and the merger savings will continue to be shared 50% with ratepayers and 50% with shareholders.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E to set up a regulatory asset of $141 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program, which thereby decreased the charge to the regulatory asset from $144 million to $141 million. The Order reduced revenues by approximately $26 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E) of savings as stipulated by LG&E, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreements in the electric and natural gas rate cases, in September 2005, LG&E filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and LG&E reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E files for a change in electric or natural gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

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

In January 2003, the Kentucky Commission reviewed KU's FAC and, as part of the Order in that case, required that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report was issued in February 2004. The report's recommendations related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E and the Kentucky Commission Staff in the second quarter of 2004. LG&E filed its first Audit Progress Report with the Kentucky Commission Staff in November 2004. The second Audit Progress Report was filed May 2005. The third Audit Progress Report was filed in December 2005. In January 2006, the Kentucky Commission staff informed LG&E and KU that reporting on all of the original recommendations, but one, has been concluded. LG&E filed another Audit Progress Report on the remaining open recommendation in August 2006.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In July 2006, the Kentucky Commission initiated a six-month review of the FAC for LG&E for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006 approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated a two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. LG&E anticipates Kentucky Commission approval of the charges and credits billed and the fuel procurement practices of LG&E during the second quarter of 2007.

ESM. Prior to 2004, LG&E's retail electric rates were subject to an ESM which set an upper (12.5%) and lower (10.5%) limit for rate of return on equity. Any earnings excess or deficiency was shared 40% with ratepayers and 60% with shareholders. LG&E filed its final 2003 ESM calculations with the Kentucky Commission in March 2004, and applied for recovery of $13 million which was challenged by intervenors. In June 2004, the Kentucky Commission issued an Order largely accepting proposed settlement agreements by LG&E and the intervenors regarding the ESM. Under the settlements, LG&E continued to collect the $13 million of previously requested 2003 ESM revenue through March 2005. As part of the settlements, the parties agreed to a termination of the ESM relating to all periods after 2003.

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

Accumulated Cost of Removal of Utility Plant. As of December 31, 2006 and 2005, LG&E has segregated the cost of removal, embedded in accumulated depreciation, of $232 million and $219 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, LG&E has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Other Regulatory Matters

Regional Reliability Council. LG&E has changed its regional reliability council membership from the Reliability First Corporation to the Southeastern Electric Reliability Council, effective January 1, 2007.

Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the contracts will occur between 2006 and 2010.

TC2 CCN Application. A CCN application for TC2 construction was filed with the Kentucky Commission in December 2004, and initial CCN applications for three transmission lines were filed in early 2005, with further applications submitted in December 2005. The proposed air permit was filed with the Kentucky Division for Air Quality in December 2004. In November 2005, the Kentucky Commission approved the application to expand the Trimble County generating station. Kentucky Commission approval for one transmission line CCN was granted in September 2005, and a ruling that a second transmission line was not subject to the CCN process was received in February 2006. The Kentucky Commission granted approval for the remaining transmission line CCN in May 2006. In August 2006, LG&E and KU obtained dismissal of a judicial review of such CCN approval by certain property owners. A further appeal of such dismissal was thereafter filed, which action remains pending. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge continued throughout 2006. A ruling may occur during the first half of 2007.

Market-Based Rate Authority. Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with LG&E's tri-annual market-based rate tariff renewals, the FERC continued to contend that the Company failed such market screens in certain regions. LG&E disputed this contention.

In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting LG&E's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big River Electric Corporation control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and LG&E's market-based rate authority is subject to such future developments. LG&E cannot predict the ultimate impact of the current or potential mitigation mechanisms on its future wholesale power sales.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, LG&E and KU filed their joint 2005 IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report, with no substantive issues noted and closed the case by Order in February 2006.

PUHCA 2005. E.ON, LG&E's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. E.ON, its utility subsidiaries, including LG&E, and certain of its non-utility subsidiaries are subject to extensive regulation by the SEC and the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. LG&E believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

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

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC is in various stages of rulemaking on these issues and LG&E is monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. LG&E is still evaluating the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any such rulemakings, will have on its operations or financial position.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. The Kentucky Commission held a public hearing in July 2006, in this proceeding with all Kentucky jurisdictional electric utilities. In December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E will develop a real-time pricing pilot for large industrial and commercial customers and file the details of the plan with the Kentucky Commission in April 2007.

As part of the rate case settlement agreements, and as referred to in the EPAct 2005 administrative order, LG&E made its pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E intends to spend approximately $76 million to refurbish the facility and add approximately 20 Mw of generating capacity over the next six years.

Note 3 - Financial Instruments

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

(in millions)	2006 Carrying Value	2006 Fair Value	2005 Carrying Value	2005 Fair Value
Preferred stock subject to mandatory redemption (including current portion of $1 million)	$ 20	$ 20	$ 21	$ 21
Long-term debt (including current portion)	$574	$574	$574	$574
Long-term debt from affiliate	$225	$222	$225	$225
Interest-rate swaps - liability	$ (15)	$ (15)	$ (19)	$ (19)

All of the above valuations reflect prices quoted by exchanges except for the swaps and intercompany loans. The fair values of the swaps and intercompany loans reflect price quotes from dealers or amounts calculated using accepted pricing models. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. See Note 13, Accumulated Other Comprehensive Income. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of December 31, 2006 and 2005. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on London Interbank Borrowing Offer Rate or the Bond Market Association's municipal swap index averaging 3.75% and 3.15% at December 31, 2006 and 2005, respectively. The swap agreements in effect at December 31, 2006 have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be fully effective resulting in a pretax gain of $3 million for 2006 and a pre-tax loss of less than $1 million in 2005, recorded in other comprehensive income. Upon expiration of these hedges, the amount recorded in other comprehensive income will be reclassified into earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $11 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities:

(in millions)	2006	2005
Fair value of contracts at beginning of period, net asset	$ 1	$ -
Fair value of contracts when entered into during the period	3	1
Contracts realized or otherwise settled during the period	(6)	-
Changes in fair values due to changes in assumptions	3	-
Fair value of contracts at end of period, net asset	$ 1	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2006 and 2005, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

LG&E maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

LG&E hedges the price volatility of its forecasted electric off-system sales with the sales of market-traded electric forward contracts for periods of less than one year. These electric forward sales have been designated as cash flow hedges and are not speculative in nature. Gains or losses on these instruments, to the extent that the hedging relationship has been effective, are deferred in other comprehensive income. Gains and losses resulting from ineffectiveness are shown in the statements of income in other expense (income)-net. Upon completion of the underlying hedge transaction, the amount recorded in other comprehensive income is recorded in earnings. No material pre-tax gains and losses resulted from these cash flow hedges in 2006, 2005 and 2004. See Note 13, Accumulated Other Comprehensive Income.

Note 4 - Concentrations of Credit and Other Risk

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

LG&E's customer receivables and natural gas and electric revenues arise from deliveries of natural gas to approximately 324,000 customers and electricity to approximately 398,000 customers in Louisville and adjacent areas in Kentucky. For the year ended December 31, 2006, 70% of total revenue was derived from electric operations and 30% from natural gas operations. For the year ended December 31, 2005, 69% of total revenue was derived from electric operations and 31% from natural gas operations.

In November 2005, LG&E and IBEW Local 2100 employees, that represent approximately 69% of LG&E's workforce at February 28, 2007, entered into a three-year collective bargaining agreement with annual benefits re-openers.

Note 5 - Pension and Other Postretirement Benefit Plans

LG&E has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. LG&E uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three-year period ending December 31, 2006, and a statement of the funded status as of December 31 for LG&E's sponsored defined benefit plans:

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Change in benefit obligation						
Benefit obligation at						
beginning of year	$ 427	$ 402	$ 379	$ 106	$ 113	$ 108
Service cost	4	4	3	1	1	1
Interest cost	23	22	23	6	6	7
Plan amendments	4	3	3	-	2	-
Benefits paid	(29)	(30)	(31)	(8)	(8)	(7)
Actuarial (gain) or loss and other	(21)	26	25	-	(8)	4
Benefit obligation at end of year	$ 408	$ 427	$ 402	$ 105	$ 106	$ 113
Change in plan assets						
Fair value of plan assets						
at beginning of year	$ 333	$ 338	$ 298	$ 3	$ 1	$ 1
Actual return on plan assets	36	27	39	-	-	(2)
Employer contributions	18	-	35	11	10	9
Benefits paid	(29)	(30)	(31)	(8)	(8)	(7)
Administrative expenses and other	(2)	(2)	(3)	-	-	-
Fair value of plan assets at end of year	$ 356	$ 333	$ 338	$ 6	$ 3	$ 1
Funded status at end of year	$ (52)	$ (94)	$ (64)	$ (99)	$ (103)	$ (112)

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

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Prior to the application of SFAS No. 158:				
Accrued benefit liability	$ (35)	$ (77)	$ (66)	$ (67)
Intangible asset	27	31	-	-
Accumulated other comprehensive income	49	77	-	-
After the application of SFAS No. 158:				
Regulatory assets	93	-	33	-
Accrued benefit liability (current)	-	-	(2)	-
Accrued benefit liability (non-current)	(52)	(77)	(97)	(67)

The following table shows the calculation of the accrued benefit liability at December 31:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Funded status	$ (52)	$ (94)	$ (99)	$ (103)
Unrecognized prior service costs	N/A	-	N/A	10
Unrecognized actuarial loss	N/A	94	N/A	21
Unrecognized transition obligation	N/A	-	N/A	5
Other comprehensive income	N/A	(77)	N/A	-
Accrued benefit liability	$ (52)	$ (77)	$ (99)	$ (67)

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

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Benefit obligation	$ 408	$ 427	$ 105	$ 106
Accumulated benefit obligation	391	410	-	-
Fair value of plan assets	356	333	6	3

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Pension Benefits 2004	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005	Other Postretirement Benefits 2004
Service cost	$ 4	$ 4	$ 3	$ 1	$ 1	$ 1
Interest cost	23	22	23	6	5	6
Expected return on plan assets	(27)	(26)	(27)	-	-	-
Amortization of prior service costs	4	4	4	2	2	2
Amortization of transitional asset	(1)	(1)	(1)	-	1	1
Amortization of actuarial loss	4	2	2	-	-	1
Amortization of transitional obligation	-	-	-	1	-	-
Benefit cost at end of year	$ 7	$ 5	$ 4	$ 10	$ 9	$ 11

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

	2006	2005	2004
Weighted-average assumptions as of December 31:			
Discount rate-Union plan	5.91%	5.50%	5.75%
Discount rate-Non-union plan	5.96%	5.50%	5.75%
Rate of compensation increase	5.25%	5.25%	4.50%

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

	2006	2005	2004
Discount rate	5.50%	5.75%	6.25%
Expected long-term return on plan assets	8.25%	8.25%	8.50%
Rate of compensation increase	5.25%	4.50%	3.50%

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

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 10% annual increase in the per capita cost of covered healthcare benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2006 total of service and interest costs components and an increase or decrease of $3 million in year-end 2006 postretirement benefit obligations.

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

(in millions)	Pension Plans	Other Postretirement Benefits
2007	$ 28	$ 8
2008	$ 28	$ 9
2009	$ 27	$ 9
2010	$ 26	$ 9
2011	$ 25	$ 9
2012-16	$ 124	$ 44

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

	Target Range	2006	2005	2004
Pension Plans:				
Equity securities	45% - 75%	61%	57%	66%
Debt securities	30% - 50%	39%	42%	33%
Other	0% - 10%	0%	1%	1%
Totals		100%	100%	100%

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

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

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

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

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

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

Contributions. LG&E made discretionary contributions to the pension plan of $18 million in January 2006 and $35 million in January 2004. There were no contributions during 2005. LG&E made an additional discretionary contribution to the pension plan of $56 million in January 2007, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. LG&E does not expect to make any further contributions in 2007. See Note 15, Subsequent Events.

In addition, LG&E made contributions to other postretirement benefit plans of approximately $11 million, $10 million and $9 million in 2006, 2005 and 2004, respectively. In 2007, LG&E anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to certain maximum applicable amounts under law or regulation.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. While LG&E continues to examine the potential impacts of the Pension Protection Act of 2006, its $56 million contribution in January 2007 was slightly more than the accrued benefit liability as of December 31, 2006.

FSP 106-2. FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, which provided guidance on accounting for subsidies provided under the Medicare Act, was effective for the first interim or annual period beginning after June 15, 2004. The impact of the subsidy in 2004 was a reduction in the accumulated postretirement benefit obligation of $3 million. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost was less than $1 million.

Thrift Savings Plans. LG&E has a thrift savings plan under section 401(k) of the IRC. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. LG&E makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were approximately $2 million for 2006 and $1 million for 2005 and 2004, respectively.

Note 6 - Income Taxes

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

(in millions)		2006	2005	2004
Current	- federal	$60	$73	$34
	- state	11	10	13
Deferred	- federal – net	(7)	(12)	11
	- state – net	(1)	(2)	(1)
Investment tax credit-deferred		3	-	-
Amortization of investment tax credit		(4)	(4)	(4)
Total income tax expense		$62	$65	$53

Deferred federal income tax expense during 2004 included significant deductions attributable to federal bonus depreciation which ended after December 2004.

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. LG&E's and KU's application requested up to a maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures.

In November 2006, the DOE and Internal Revenue Service announced that LG&E and KU were selected to receive the tax credit. LG&E's portion of the tax credit will be approximately $24 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In 2006, based on eligible construction expenditures incurred in 2006, LG&E recorded a federal investment tax credit, decreasing current federal income taxes in 2006 by $3 million.

H. R. 4520, known as the "American Jobs Creation Act of 2004" allows electric utilities to take a deduction of up to 3% of their qualified production activities income starting in 2005. This deduction reduced LG&E's effective tax rate by less than 1% for 2006.

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

(in millions)	2006	2005
Deferred tax liabilities:		
Depreciation and other plant-related items	$367	$391
Regulatory assets and other	22	23
Pension and related benefits	6	-
Total deferred tax liabilities	395	414
Deferred tax assets:		
Investment tax credit	15	17
Income taxes due to customers	21	17
Pensions and related benefits	-	39
Liabilities and other	26	19
Total deferred tax assets	62	92
Net deferred income tax liability	$333	$322

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

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.8	4.3	5.3
Reduction of income tax accruals	(0.4)	(2.0)	(0.7)
Amortization of investment tax credits	(2.2)	(2.1)	(3.6)
Other differences	(1.6)	(1.7)	(0.4)
Effective income tax rate	34.6%	33.5%	35.6%

State income taxes net of federal benefit in 2006 reflect Kentucky Coal Tax Credits earned.

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

In September 2005, LG&E received notice from the Congressional Joint Committee on Taxation approving the Internal Revenue Service's audit of LG&E's income tax returns for the periods December 1999 through December 2003. As a result of resolving numerous tax matters during these periods, LG&E reduced income tax accruals by $4 million during 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate change, LG&E's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than the rates were when the deferred tax liability originated. This excess amount is referred to as excess deferred income taxes. In June 2005 and December 2006, LG&E received approval from the Kentucky Commission to establish and amortize a regulatory liability ($16 million) for its net excess deferred income tax balances. LG&E will amortize its depreciation-related excess deferred income tax balances under the average rate assumption method. The average rate assumption method matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2005 and 2006 due to their immaterial amount.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2006 and 2005, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2006:			
Noncurrent portion	Variable - 5.875%	2008-2035	$ 572
Current portion	Variable	2007-2027	248
Outstanding at December 31, 2005:			
Noncurrent portion	Variable - 5.875%	2008-2035	$ 573
Current portion	Variable	2006-2027	248

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2006 and 2005 was 3.50% and 2.50%, respectively.

Pollution control series bonds are first mortgage bonds that have been issued by LG&E in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The county's debt is also secured by LG&E's first mortgage bonds of an equal amount (the pollution control series bonds) that are pledged to the trustee for the pollution control revenue bonds, and that matches the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Substantially all of LG&E's utility assets are pledged as collateral for its first mortgage bonds. LG&E's first mortgage bond indenture, as supplemented, provides that portions of retained earnings will not be available for the payment of dividends on common stock, under certain specified conditions. No portion of retained earnings was restricted by this provision as of either December 31, 2006 or 2005.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2006 and 2005, LG&E had swaps with an aggregate notional value of $211 million. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2006, 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2006
2005	Pollution control bonds	$ 40	5.90%	Secured	Apr 2023
2005	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2005	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2005
2004	Due to Fidelia	$ 50	1.53%	Secured	Jan 2005
2004	Mandatorily Redeemable Preferred Stock	$ 1	5.875%	Unsecured	Jul 2004

LG&E did not issue any new long-term debt in 2006. Issuances of long-term debt for 2005 and 2004 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2005	Pollution control bonds	$ 40	Variable	Secured	Feb 2035
2004	Due to Fidelia	$ 25	4.33%	Secured	Jan 2012
2004	Due to Fidelia	$100	1.53%	Secured	Jan 2005

LG&E has existing $5.875 series mandatorily redeemable preferred stock outstanding having a current redemption price of $100 per share. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and the remaining 187,500 shares on July 15, 2008 at $100 per share. LG&E redeemed 12,500 shares in accordance with these provisions on July 15, 2006, 2005, 2004 and 2003, leaving 200,000 shares currently outstanding.

Long-term debt maturities for LG&E are shown in the following table:

(in millions)	
2007	$ 1
2008	19
2009-11	-
Thereafter	800 (a)
Total	$820

(a) Includes long-term debt of $246 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2013 to 2027. LG&E does not expect to pay these amounts in 2007.

Note 8 - Notes Payable and Other Short-Term Obligations

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2006	$400	$ 68	$332	5.25%
December 31, 2005	$400	$141	$259	4.21%

At December 31, 2006 and 2005, E.ON U.S. maintained a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2006	$200	$102	$98	5.49%
December 31, 2005	$200	$105	$95	4.49%

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. These credit facilities expire in June 2007, and there was no outstanding balance under any of these facilities at December 31, 2006 and 2005.

The covenants under these revolving lines of credit include:

- The debt/total capitalization ratio must be less than 70%;
- E.ON AG must own at least 66.667% of voting stock of LG&E directly or indirectly;
- The corporate credit rating of the Company must be at or above BBB- and Baa3; and
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2005.

Note 9 - Commitments and Contingencies

Operating Leases. LG&E leases office space, office equipment and vehicles and accounts for these leases as operating leases. Total lease expense for 2006, 2005 and 2004, less amounts contributed by affiliated companies occupying a portion of the office space leased by LG&E, was $5 million for 2006 and $3 million each for 2005 and 2004. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2006, are shown in the following table:

(in millions)	
2007	$2
2008	2
2009	2
2010	2
2011	2
Thereafter	8
Total	$18

Sale and Leaseback Transaction. LG&E is a participant in a sale and leaseback transaction involving its 38% interest in two jointly-owned combustion turbines at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the combustion turbines. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if LG&E had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

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

At December 31, 2006, the maximum aggregate amount of default fees or amounts was $9 million, of which LG&E would be responsible for 38% (approximately $3 million). LG&E has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay LG&E's full portion of any default fees or amounts.

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

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

(in millions)	
2007	$ 11
2008	13
2009	16
2010	17
2011	17
Thereafter	328
Total	$402

Construction Program. LG&E had approximately $180 million of commitments in connection with its construction program at December 31, 2006.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on LG&E's power plant operations.

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

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act's best available retrofit technology ("BART") requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emissions allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 to 2006 time period at a cost of $187 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level. LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted or to determine the reduction targets and deadlines that would be applicable under such programs. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E cannot be determined prior to the enactment of such programs.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former MGP sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former MGP sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. An accrual for this amount had been recorded in the accompanying financial statements at December 31, 2005, which accrual was reversed as of December 31, 2006 upon the evaluation that the likelihood of such occurrence is remote. Based on analysis to date, the resolution of the other matters is also not expected to have a material impact on the operations of LG&E.

Note 10 - Jointly Owned Electric Utility Plant

LG&E owns a 75% undivided interest in TC1 which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the Unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses and incremental assets. The following data represent shares of the jointly owned property:

	TC1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511

(in millions)	
LG&E's 75% ownership:	
Cost	$ 604
Accumulated depreciation	(231)
Net book value	$ 373
Construction work in progress (included in above)	$ 9

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

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

(in millions)	LG&E	KU
Construction work in progress	$25	$96

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

($ in millions)	LG&E				KU				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
LG&E 53%, KU 47% (1)	146	58	(10)	48	129	51	(10)	41	275	109	(20)	89
LG&E 38%, KU 62% (2)	118	46	(8)	38	190	72	(12)	60	308	118	(20)	98
LG&E 29%, KU 71% (3)	92	32	(4)	28	228	80	(12)	68	320	112	(16)	96
LG&E 37%, KU 63% (4)	236	79	(8)	71	404	137	(12)	125	640	216	(20)	196
LG&E 29%, KU 71% (5)	n/a	3	(0)	3	n/a	9	(1)	8	n/a	12	(1)	11

(1) Comprised of Paddy's Run 13 and E W Brown 5 In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and Units 8-11 at the E W Brown facility This inlet air cooling system is not jointly owned, however it is used to increase production on the units to which it relates, resulting in an additional 10Mw of capacity for LG&E.

(2) Comprised of units 6 and 7 at the E W Brown facility

(3) Comprised of units 5 and 6 at the Trimble County facility

(4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility

(5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility

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

Note 11 - Segments of Business and Related Information

LG&E is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity and the storage, distribution and sale of natural gas. LG&E is regulated by the Kentucky Commission and files electric and natural gas financial information separately with the Kentucky Commission. The Kentucky Commission establishes rates specifically for the electric and natural gas businesses. Therefore, management reports and analyzes financial performance based on the electric and natural gas segments of the business. Financial data for business segments follow:

(in millions)	Electric	Gas	Total
2006			
Operating revenues	$ 943	$395	$1,338
Depreciation and amortization	105	19	124
Income taxes	57	5	62
Interest income	1	-	1
Interest expense	33	8	41
Net income	107	10	117
Total assets	2,520	664	3,184
Construction expenditures	111	35	146
2005			
Operating revenues	$ 987	$437	$1,424
Depreciation and amortization	106	18	124
Income taxes	60	5	65
Interest income	1	-	1
Interest expense	30	7	37
Net income	119	10	129
Total assets	2,475	671	3,146
Construction expenditures	97	42	139
2004			
Operating revenues	$ 816	$357	$1,173
Depreciation and amortization	100	17	117
Income taxes	48	5	53
Interest income	-	-	-
Interest expense	27	6	33
Net income	87	9	96
Total assets	2,417	550	2,967
Construction expenditures	113	35	148

Note 12 - Related Party Transactions

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

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail and off-system customers. In 2004, LG&E also had sales to LG&E Energy Marketing Inc., another E.ON U.S. subsidiary, of less than $1 million. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense for the years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
Electric operating revenues from KU	$99	$92	$59
Purchased power from KU	77	96	62

Interest Charges

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

LG&E's intercompany interest income and expense for the years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
Interest on money pool loans	$ 2	$ 2	$ -
Interest on Fidelia loans	11	11	12

Other Intercompany Billings

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

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services relate to information technology-related services provided by LG&E employees, cash received by E.ON U.S. Services on behalf of LG&E and services provided by LG&E to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E for the years ended December 31, 2006, 2005 and 2004 were as follows:

(in millions)	2006	2005	2004
E.ON U.S. Services billings to LG&E	$230	$208	$191
LG&E billings to KU	53	101	60
KU billings to LG&E	56	29	7
LG&E billings to E.ON U.S. Services	7	8	13

Note 13 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Accumulated Derivative Gain or Loss	Pre-Tax	Income Taxes	Net
Balance at December 31, 2003	$(48)	$(16)	$(64)	$27	$(37)
Minimum pension liability adjustment	(10)	-	(10)	4	(6)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	(2)	(2)	-	(2)
Balance at December 31, 2004	(58)	(18)	(76)	31	(45)
Minimum pension liability adjustment	(19)	-	(19)	6	(13)
Balance at December 31, 2005	(77)	(18)	(95)	37	(58)
Minimum pension liability adjustment	77	-	77	(30)	47
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	3	3	(1)	2
Balance at December 31, 2006	$ -	$(15)	$(15)	$ 6	$ (9)

Note 14 - Selected Quarterly Data (Unaudited)

Selected financial data for the four quarters of 2006 and 2005 are shown below. Because of seasonal fluctuations in temperature and other factors, results for quarters may fluctuate throughout the year.

	Quarters Ended			
(in millions)	March	June	September	December
2006				
Operating revenues	$413	$277	$303	$345
Net operating income	50	47	71	55
Net income	26	25	40	26
2005				
Operating revenues	$402	$281	$319	$422
Net operating income	62	53	66	49
Net income	34	28	42	25

Note 15 - Subsequent Events

On January 16, 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006.

On January 31, 2007, LG&E received an Order from the Kentucky Commission approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

On January 31, 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provide a source of funds for the possible redemption of LG&E's preferred stock. In March 2007, a committee of LG&E's board authorized the redemption of the preferred stock, effective in April 2007, pursuant to existing redemption provisions applicable to such series. LG&E will redeem on such redemption date all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

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

Dividends on the shares of preferred stock shall cease to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

On February 9, 2007, LG&E filed with the Kentucky Commission an application for approval of a "green energy" rider. This application details LG&E's plans to offer its customers a "green energy" program that contributes funds to the maintenance and growth of renewable energy in Kentucky and contiguous states. An Order is expected during the second quarter of 2007.

On March 21, 2007, LG&E filed a real-time pilot program for residential and general service customers with the Kentucky Commission as agreed to in the Rate Case settlement agreement and in response to additional requirements ordered by the Kentucky Commission resulting from not adopting the Smart-Metering and Interconnection standards included in the EPAct 2005. An order from the Kentucky Commission is anticipated before the end of 2007.

Louisville Gas and Electric Company
REPORT OF MANAGEMENT

The management of Louisville Gas and Electric Company ("LG&E") is responsible for the preparation and integrity of the financial statements and related information included in this Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis and, necessarily, include amounts that reflect the best estimates and judgment of management.

LG&E's financial statements for the three years ended December 31, 2006, have been audited by Pricewaterhouse-Coopers LLP, an independent registered public accounting firm. Management made available to Pricewaterhouse-Coopers LLP all LG&E's financial records and related data as well as the minutes of shareholders' and directors' meetings.

Management has established and maintains a system of internal controls that provides reasonable assurance that transactions are completed in accordance with management's authorization, that assets are safeguarded and that financial statements are prepared in conformity with generally accepted accounting principles. Management believes that an adequate system of internal controls is maintained through the selection and training of personnel, appropriate division of responsibility, establishment and communication of policies and procedures and by regular reviews of internal accounting controls by LG&E's internal auditors. Management reviews and modifies its system of internal controls in light of changes in conditions and operations, as well as in response to recommendations from the internal and external auditors. These recommendations for the year ended December 31, 2006, did not identify any material weaknesses in the design and operation of LG&E's internal control structure.

LG&E is not an accelerated filer under the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

In carrying out its oversight role for the financial reporting and internal controls of LG&E, the Board of Directors meets regularly with LG&E's independent registered public accounting firm, internal auditors and management. The Board of Directors reviews the results of the independent registered public accounting firm's audit of the financial statements and their audit procedures, and discusses the adequacy of internal accounting controls. The Board of Directors also approves the annual internal auditing program and reviews the activities and results of the internal auditing function. Both the independent registered public accounting firm and the internal auditors have access to the Board of Directors at any time.

LG&E maintains and internally communicates a written code of business conduct and a senior financial officer code of ethics which address, among other items, potential conflicts of interest, compliance with laws, including those relating to financial disclosure, and the confidentiality of proprietary information.

S. Bradford Rives
Chief Financial Officer

Louisville Gas and Electric Company
Louisville, Kentucky

Date: March 21, 2007

Report of Independent Registered Public Accounting Firm

To the Shareholder of Louisville Gas and Electric Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, Louisville Gas and Electric Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006, and the manner in which it accounts for conditional asset retirement obligations as of December 31, 2005.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 8, 2007

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

ITEM 9A. Controls and Procedures.

Disclosure Controls

LG&E maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports they file or submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. LG&E conducted an evaluation of such controls and procedures under the supervision and with the participation of the Company's Management, including the Chairman, President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based upon that evaluation, the CEO and CFO are of the conclusion that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

In preparation for required reporting under Section 404 of the Sarbanes-Oxley Act of 2002, the Company is conducting a thorough review of its internal control over financial reporting, including disclosure controls and procedures. Based on this review, the Company has made internal control enhancements and will continue to make future enhancements to its internal control over financial reporting. There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

LG&E is not an accelerated filer under the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

ITEM 9B. Other Information.

Not applicable.

PART III

Certain information for ITEMS 10, 11, 12, 13 and 14 is omitted pursuant to General Instruction G of Form 10-K. The information required by ITEMS 10, 11, 12, 13 and 14 for LG&E is incorporated herein by reference to its definitive proxy statements and/or Form 10-K/A amendments which may be filed during April 2007 with the SEC pursuant to Regulation 14A of the Securities and Exchange Act of 1934. Additionally, in accordance with General Instruction G, certain information required by ITEM 10 relating to executive officers of LG&E has been included in Part I of this Form 10-K.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements (included in Item 8):

Statements of Income for the three years ended December 31, 2006 (page 44).
Statements of Retained Earnings for the three years ended December 31, 2006 (page 44).
Statements of Comprehensive Income for the three years ended December 31, 2006 (page 45).
Balance Sheets-December 31, 2006, and 2005 (page 46).
Statements of Cash Flows for the three years ended December 31, 2006 (page 48).
Statements of Capitalization-December 31, 2006, and 2005 (page 49).
Notes to Financial Statements (pages 50-82).
Report of Management (page 83).
Report of Independent Registered Public Accounting Firm (page 84).

2. Financial Statement Schedules (included in Part IV):

All schedules have been omitted as not applicable or not required or because the information required to be shown is included in the Financial Statements or the accompanying Notes to Financial Statements.

3. Exhibits:

Exhibit No.	Description
2.01	Copy of Agreement and Plan of Merger, dated as of February 27, 2000, by and among Powergen plc, LG&E Energy Corp., US Subholdco2 and Merger Sub, including certain exhibits thereto. [Filed as Exhibit 1 to LG&E's Current Report on Form 8-K filed February 29, 2000 and incorporated by reference herein.]
2.02	Amendment No. 1 to Agreement and Plan of Merger, dated as of December 8, 2000, among LG&E Energy Corp., Powergen plc, Powergen US Investments Corp. and Powergen Acquisition Corp. [Filed as Exhibit 2.01 to LG&E's Current Report on Form 8-K filed December 11, 2000 and incorporated by reference herein.]
2.03	Copy of Agreement and Plan of Merger, dated as of May 20, 1997, by and between LG&E Energy and KU Energy, including certain exhibits thereto. [Filed as Exhibit 2 to LG&E's Current Report on Form 8-K filed May 30, 1997 and incorporated by reference herein.]
3.01	Copy of Restated Articles of Incorporation of LG&E, dated November 6, 1996. [Filed as Exhibit 3.06 to LG&E's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated by reference herein.]
3.02	Copy of Amendment to Articles of Incorporation of LG&E, dated February 6, 2004.

[Filed as Exhibit 3.02 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

3.03 Copy of By-Laws of LG&E, as amended through December 16, 2003. [Filed as Exhibit 3.03 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.01 Copy of Trust Indenture dated November 1, 1949, from LG&E to Harris Trust and Savings Bank, Trustee. [Filed as Exhibit 7.01 to LG&E's Registration Statement 2-8283 and incorporated by reference herein.]

4.02 Copy of Supplemental Indenture dated September 1, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.32 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

4.03 Copy of Supplemental Indenture dated September 2, 1992, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.33 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

4.04 Copy of Supplemental Indenture dated August 16, 1993, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.35 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein.]

4.05 Copy of Supplemental Indenture dated August 1, 2000, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.38 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2000, and incorporated by reference herein.]

4.06 Copy of Supplemental Indenture dated September 1, 2001, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.42 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated by reference herein.]

4.07 Copy of Supplemental Indenture dated March 1, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.39 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.08 Copy of Supplemental Indenture dated March 15, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.40 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.09 Copy of Supplemental Indenture dated October 1, 2002, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.41 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

4.10 Copy of Supplemental Indenture dated October 1, 2003, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.22 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.11 Supplemental Indenture dated as of April 1, 2005, from Louisville Gas and Electric Company to BNY Midwest Trust Company, as Trustee, which is a supplemental instrument to Exhibit 4.01 hereto. [Filed as Exhibit 4.1 to LG&E's Form 8-K filed on April 13, 2005, and incorporated by reference herein.]

4.12 Copy of Loan Agreement between LG&E and Fidelia Corporation, dated April 30, 2003. [Filed as Exhibit 4.24 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

4.13 Copy of Loan Agreement between LG&E and Fidelia Corporation, dated January 15, 2004. [Filed as Exhibit 4.27 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

4.14 Copy of Loan and Security Agreement between LG&E and Fidelia Corporation, dated as of August 15, 2003. [Filed as Exhibit 4.27 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.01 Copies of (i) Inter-Company Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies (which Agreement includes as Exhibit A the Power Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Indiana-Kentucky Electric Corporation); (ii) First Supplementary Transmission Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iii) Inter-Company Bond Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies; (iv) Inter-Company Bank Credit Agreement, dated July 10, 1953, between Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 5.02f to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.02 Copy of Modification No. 1 and No. 2 dated June 3, 1966 and January 7, 1967, respectively, to Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibits 4(a)(8) and 4(a)(10) to LG&E's Registration Statement 2-26063 and incorporated by reference herein.]

10.03 Copies of Amendments to Agreements (iii) and (iv) referred to under 10.01 above as follows: (i) Amendment to Inter-Company Bond Agreement and (ii) Amendment to Inter-Company Bank Credit Agreement. [Filed as Exhibit 5.02h to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.04 Copy of Modification No. 1, dated August 20, 1958, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02i to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.05 Copy of Modification No. 2, dated April 1, 1965, to the First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02j to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.06 Copy of Modification No. 3, dated January 20, 1967, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 4(a)(7) to LG&E's Registration Statement 2-26063 and incorporated by reference herein.]

10.07 Copy of Modification No. 3 dated November 15, 1967, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 4.02m to LG&E's Registration Statement 2-37368 and incorporated by reference herein.]

10.08 Copy of Modification No. 4 dated November 5, 1975, to the Inter-Company Power Agreement dated July 10, 1953. [Filed as Exhibit 5.02o to LG&E's Registration Statement 2-56357 and incorporated by reference herein.]

10.09 Copy of Modification No. 4 dated April 30, 1976, to First Supplementary Transmission Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 5.02p to LG&E's Registration Statement 2-61607 and incorporated by reference herein.]

10.10 Copy of Modification No. 5 dated September 1, 1979, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 4 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1979, and incorporated by reference herein.]

10.11 Copy of Modification No. 6 dated August 1, 1981, to Inter-Company Power Agreement dated July 5, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.26 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1981, and incorporated by reference herein.]

10.12 * Copy of Non-Qualified Savings Plan covering officers of the Company, effective January 1, 1992. [Filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated by reference herein.]

10.13 Copy of Modification No. 7 dated January 15, 1992, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.44 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated by reference herein.]

10.14 Copy of Modification No. 8 dated January 19, 1994, to Inter-Company Power Agreement, dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]

10.15 Copy of Modification No. 9, dated August 17, 1995, to the Inter-Company Power

Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.39 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated by reference herein.]

10.16 * Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1992. [Filed as Exhibit 10.55 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]

10.17 * Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.56 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]

10.18 * Copy of Amendment to the Non-Qualified Savings Plan, effective January 1, 1995. [Filed as Exhibit 10.57 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated by reference herein.]

10.19 * Copy of Supplemental Executive Retirement Plan as amended through January 1, 1998, covering officers of LG&E Energy. [Filed as Exhibit 10.74 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated by reference herein.]

10.20 * Copy of Amendment to LG&E Energy's Supplemental Executive Retirement Plan, effective September 2, 1998. [Filed as Exhibit 10.90 to LG&E Energy's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference herein.]

10.21 * Copy of Employment and Severance Agreement, dated as of February 25, 2000, by and among LG&E Energy, Powergen plc and an executive officer of the Company. [Filed as Exhibit 10.54 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.22 * Copy of Amendment, effective October 1, 1999, to LG&E Energy's Non-Qualified Savings Plan. [Filed as Exhibit 10.96 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]

10.23 * Copy of Amendment, effective December 1, 1999, to LG&E Energy's Non-Qualified Savings Plan. [Filed as Exhibit 10.97 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]

10.24 Copy of Modification No. 10, dated January 1, 1998, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.102 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]

10.25 Copy of Modification No. 11, dated April 1, 1999, to the Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and the Sponsoring Companies. [Filed as Exhibit 10.103 to LG&E's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated by reference herein.]

10.26 * Copy of Powergen Short-Term Incentive Plan, effective January 1, 2001, applicable to certain employees of LG&E Energy Corp. and its subsidiaries. [Filed as Exhibit 10.109 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.]

10.27 * Copy of two forms of Change-In-Control Agreement applicable to certain employees of LG&E Energy Corp. and its subsidiaries. [Filed as Exhibit 10.110 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated by reference herein.]

10.28 * Copy of Employment and Severance Agreement, dated as of February 25, 2000, and amendments thereto dated December 8, 2000 and April 30, 2001, by and among LG&E Energy, Powergen plc and Victor A. Staffieri. [Filed as Exhibit 10.74 to LG&E's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated by reference herein.]

10.29 * Copy of Amendment, dated as of December 8, 2000, to Employment and Severance Agreement dated as of February 25, 2000, by and among LG&E Energy, Powergen plc and an executive officer of the Company. [Filed as Exhibit 10.63 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.30 * Copy of Third Amendment, dated July 1, 2002, to Employment and Severance Agreement dated as of February 25, 2000 by and among E.ON AG, LG&E Energy, Powergen and Victor A. Staffieri. [Filed as Exhibit 10.74 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.31 * Copy of form of Retention and Severance Agreement dated April/May, 2002 by and among LG&E Energy, E.ON AG and certain executive officers of the Companies. [Filed as Exhibit 10.75 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.32 * Copy of Second Amendment, dated May 20, 2002, to Employment and Severance Agreement, dated February 25, 2000, by and among E.ON AG, LG&E Energy Corp., Powergen plc and an executive of the Companies. [Filed as Exhibit 10.76 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.33 * Copy of Representative Terms and Conditions for Stock Appreciation Rights Issued as part of E.ON Group's Stock Appreciation Rights Programs, applicable to certain executive officers of the Companies. [Filed as Exhibit 10.79 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated by reference herein.]

10.34 * Copy of LG&E Energy Corp. Long-Term Performance Unit Plan, adopted April 25, 2003, effective January 1, 2003. [Filed as Exhibit 10.65 to LG&E Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.35 Copy of Modification No. 12 dated as of November 1, 1999, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.69 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.36 Copy of Modification No. 13 dated as of May 24, 2000, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.70 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.37 Copy of Modification No. 14 dated as of April 1, 2001, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.71 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated by reference herein.]

10.38 Copy of Amended and Restated Inter-Company Power Agreement dated as of March 13, 2006, among Ohio Valley Electric Corporation and Sponsoring Companies, including LG&E. [Filed as Exhibit 10.1 to LG&E Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.39 * Copy of Fourth Amendment dated as of February 1, 2004 to Employment and Severance Agreement dated as of February 25, 2000 by and among E.ON AG, LG&E Energy, Powergen and Victor A. Staffieri. [Filed as Exhibit 10.02 to LG&E Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.40 Copy of Modification No. 15, dated as of April 30, 2004, to Inter-Company Power Agreement dated July 10, 1953, among Ohio Valley Electric Corporation and Sponsoring Companies. [Filed as Exhibit 10.03 to LG&E's Form 10-Q for the period ended June 30, 2004, and incorporated by reference herein.]

10.41 Participation Agreement between LG&E and Illinois Municipal Electric Agency, dated as of September 24, 1990. [Filed as Exhibit 10.42 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.42 Participation Agreement between LG&E and Indiana Municipal Power Agency, dated as of February 1, 1993. [Filed as Exhibit 10.43 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.43 Participation Agreement by and among LG&E and KU and Illinois Municipal Electric Agency and Indiana Municipal Power Agency, dated as of February 9, 2004. [Filed as Exhibit 10.44 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.44 Copy of Barge Transportation Agreement between LG&E, effective January 1, 2002, and KU, effective July 1, 2002, and Crounse Corporation. [Filed as Exhibit 10.45 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.45 Amendment No. 1 to Barge Transportation Agreement between Louisville Gas and Electric Company and Kentucky Utilities Company and Crounse Corporation, dated as of January 1, 2005. [Filed as Exhibit 10.46 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated by reference herein.]

10.46 * Copy of LG&E Energy LLC Nonqualified Savings Plan, effective January 1, 2005. [Filed as Exhibit 10.47 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated by reference herein.]

10.47 * Executive Officer Salary Information.

10.48 * Form of Representative Specimen Award under LG&E Energy Long-Term Performance Unit Plan. [Filed as Exhibit 10.47 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.49 * Form of Representative Specimen Award under E.ON Group Stock Appreciation Rights Program. [Filed as Exhibit 10.48 to LG&E's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference herein.]

10.50 * Copies of E.ON Share Performance Plan (i) Terms and Conditions for the 1. Tranche (2006-2008) and (ii) Technical Annex, each dated as of June 2006. [Filed as Exhibit 10.01 to LG&E's Form 10-Q for the quarter ended September 30, 2006 and incorporated by reference herein.]

10.51 * Copies of form representative specimen Certificate Award under E.ON Share Performance Plan. [Filed as Exhibit 10.02 to LG&E's Form 10-Q for the quarter ended September 30, 2006 and incorporated by reference herein.]

12 Computation of Ratio of Earnings to Fixed Charges for LG&E.

21 Subsidiaries of the Registrant.

24 Power of Attorney.

31.1 Certification of Chief Executive Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.01 Cautionary Statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995.

Louisville Gas and Electric Company
Computation of Ratio of Earnings to Fixed Charges
(Millions of $)

	2006	2005	2004	2003	2002
Earnings:					
Net Income	$117	$ 129	$ 96	$ 91	$89
Add:					
Federal income taxes – current	60	73	34	26	25
State income taxes – current	11	10	13	10	8
Deferred Federal income taxes – net	(7)	(12)	11	17	20
Deferred State income taxes – net	(1)	(2)	(1)	1	4
Investment tax credit – net	(1)	(4)	(4)	(4)	(4)
Fixed charges	43	38	34	31	30
Earnings	$222	$232	$183	$172	$172
Fixed Charges:					
Interest charges per statements of income	$ 41	$ 37	$ 33	$ 31	$ 30
Add:					
One-third of rentals charged to operating expense (1)	2	1	1	-	-
Fixed charges	$ 43	$ 38	$ 34	$ 31	$ 30
Ratio of Earnings to Fixed Charges	5.16	6.11	5.38	5.55	5.73

NOTE: (1) In the Company's opinion, one-third of rentals represents a reasonable approximation of the interest factor.

SIGNATURES – LOUISVILLE GAS AND ELECTRIC COMPANY

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY
Registrant

March 21, 2007	By:	/s/ S. Bradford Rives
(Date)		S. Bradford Rives
		Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
Victor A. Staffieri	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	
S. Bradford Rives	Director and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	
John R. McCall	Director and Executive Vice President, General Counsel and Corporate Secretary	
Chris Hermann	Director and Senior Vice President, Energy Delivery	
Paul W. Thompson	Director and Senior Vice President, Energy Services	

By: /s/ S. Bradford Rives
(Attorney-In-Fact)

March 21, 2007

Exhibit 31.1

CERTIFICATIONS

Louisville Gas and Electric Company

I, Victor A. Staffieri, Chairman of the Board, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) *designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our* supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2007

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, President and Chief Executive Officer

Exhibit 31.2

Louisville Gas and Electric Company

I, S. Bradford Rives, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2007

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Exhibit 32

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Louisville Gas and Electric Company (the "Company") on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned does hereby certify, pursuant to *18 U.S.C. Section 1350*, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge,

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

March 21, 2007

/s/ Victor A. Staffieri
Chairman of the Board, President
and Chief Executive Officer
Louisville Gas and Electric Company

/s/ S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

2008 - 1st Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information
(Unaudited)

As of March 31, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
OPERATING REVENUES:		
Electric	$ 224	$ 222
Gas	191	153
Total operating revenues	415	375
OPERATING EXPENSES:		
Fuel for electric generation	80	76
Power purchased	24	26
Gas supply expenses	153	115
Other operation and maintenance expenses	80	69
Depreciation and amortization	31	31
Total operating expenses	368	317
OPERATING INCOME	47	58
Other expense - net	2	2
Interest expense (Notes 3 and 6)	8	5
Interest expense to affiliated companies (Note 9)	6	3
INCOME BEFORE INCOME TAXES	31	48
Federal and state income taxes (Note 5)	10	16
NET INCOME	$ 21	$ 32

The accompanying notes are an integral part of these financial statements

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance at beginning of period	$ 690	$ 639
Net income	21	32
Subtotal	711	671
Cash dividends declared on stock:		
Cumulative preferred	-	1
Common	40	35
Subtotal	40	36
Balance at end of period	$ 671	$ 635

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 3	$ 4
Restricted cash	2	7
Accounts receivable – less reserves of $2 million as of March 31, 2008 and December 31, 2007	179	189
Accounts receivable from affiliated companies (Note 9)	5	-
Materials and supplies:		
Fuel (predominantly coal)	37	46
Gas stored underground	23	81
Other materials and supplies	31	31
Reacquired bonds	40	-
Prepayments and other current assets (Note 9)	5	13
Total current assets	325	371
Utility plant:		
At original cost	4,364	4,319
Less: reserve for depreciation	1,645	1,619
Net utility plant	2,719	2,700
Deferred debits and other assets:		
Restricted cash	13	12
Prepaid pension assets	15	14
Regulatory assets (Note 2):		
Pension and postretirement benefits	109	110
Other	92	94
Other assets	11	12
Total deferred debits and other assets	240	242
Total assets	$ 3,284	$ 3,313

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 160	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	108	78
Accounts payable	107	111
Accounts payable to affiliated companies (Note 9)	18	57
Customer deposits	20	19
Other current liabilities	32	34
Total current liabilities	445	419
Long-term debt:		
Long-term debt (Note 6)	414	454
Long-term debt to affiliated company (Notes 6 and 9)	410	410
Total long-term debt	824	864
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	341	342
Accumulated provision for pensions and related benefits (Note 4)	95	94
Investment tax credit (Note 5)	46	46
Asset retirement obligation	30	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	244	241
Deferred income taxes – net	49	50
Gas supply adjustment and other	16	19
Long-term derivative liability	29	22
Other liabilities	26	25
Total deferred credits and other liabilities	876	869
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	60	60
Accumulated other comprehensive loss	(16)	(13)
Retained earnings	671	690
Total common equity	1,139	1,161
Total liabilities and equity	$ 3,284	$ 3,313

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 21	32
Items not requiring cash currently:		
Depreciation and amortization	31	31
Deferred income taxes – net	(1)	1
Other	(3)	2
Changes in current assets and liabilities:		
Accounts receivable	5	29
Material and supplies	67	48
Accounts payable	(22)	2
Accrued income taxes	-	5
Prepayments and other current assets	8	-
Other current liabilities	(2)	3
Pension and postretirement funding	1	(56)
Gas supply clause receivable, net	(8)	(23)
Other	8	10
Net cash provided by operating activities	105	84
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(67)	(34)
Restricted cash	5	(7)
Net cash used for investing activities	(62)	(41)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings from affiliated company	355	197
Repayment of short-term borrowings from affiliated company	(325)	(241)
Reacquired bonds	(40)	-
Payment of dividends	(40)	(1)
Long-term derivative liability	7	1
Restricted cash	(1)	-
Net cash used in financing activities	(44)	(44)
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3	$ 6

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2008	2007
Net income	$ 21	$ 32
Loss on derivative instruments and hedging activities – net of tax benefit/(expense) of $2 million and $(1) million, respectively (Note 3)	(3)	-
Other comprehensive loss, net of tax	(3)	-
Comprehensive income	$ 18	$ 32

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

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

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

RECENT ACCOUNTING PRONOUNCEMENTS

<u>SFAS No. 161</u>

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

<u>SFAS No. 160</u>

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

<u>SFAS No. 159</u>

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No.

159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

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

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	March 31, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	20	19
GSC adjustments	23	20
MISO exit	12	13
FAC	3	9
ECR	4	4
Other	5	5
Subtotal	92	94
Pension and postretirement benefits	109	110
Total regulatory assets	$ 201	$ 204
Accumulated cost of removal of utility plant	$ 244	$ 241
Deferred income taxes – net	49	50
Gas supply adjustments ($5 and $10 million at March 31, 2008 and December 31, 2007, respectively) and other	16	19
Total regulatory liabilities	$ 309	$ 310

LG&E does not currently earn a rate of return on the GSC adjustments, FAC and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E will seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit, gas performance-based ratemaking and Mill Creek Ash Pond costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

MISO Exit. LG&E and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, LG&E paid approximately $13 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and will provide an estimated $2 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period May 1, 2007 through October 31, 2007. A public hearing was held in March 2008. An order is anticipated in the third quarter of 2008.

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

ECR. In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's environmental surcharge. All parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review period, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005, and was never appealed.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into

Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, LG&E, KU and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. LG&E, KU and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. LG&E and KU will file a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line (all rights of way for the other line have been acquired), a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. LG&E and KU have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this same transmission line are also pending in neighboring Hardin County, and three landowners there have now sought dismissal of certain of those proceedings in Hardin County, on the same grounds cited by the Meade County court. LG&E and KU have opposed those efforts to dismiss, and are awaiting ruling by the Hardin County Circuit Court.

Merger Surcredit. In December 2007, LG&E submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission issued a procedural schedule for this proceeding in March 2008, with data discovery to be completed in May 2008. A public hearing is scheduled in May 2008, and an order is expected by the end of the second quarter of 2008.

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

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E is a member of the SERC, which acts as LG&E's RRO. The SERC is currently assessing LG&E's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards, and LG&E and SERC are in discussions regarding potential settlement, further mitigation steps or other resolution actions regarding these items. While LG&E believes itself to be in substantial compliance with the mandatory reliability standards, LG&E cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

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

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E, for implementation within approximately eight months, for its large commercial and industrial customers.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008. An order is anticipated in the second quarter of 2008.

Note 3 - Financial Instruments

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

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. The fair values of the swaps reflect price quotes from dealers. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

The following table sets forth by level within the fair value hierarchy LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2008. There are no Level 2 or Level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1
Liabilities:	
Interest rate swaps	$29
Total	$29

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of March 31, 2008 and December 31, 2007. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 2.16% at March 31, 2008. The swap agreements in effect at March 31, 2008, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. LG&E's hedges have been determined to be highly effective. For the three months ended March 31, 2008, the Company recorded a pre-tax loss of $6 million in other comprehensive income to reflect the ineffective portion of the hedge. Amounts in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $13 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

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

The table below summarizes LG&E's energy trading and risk management activities for the three months ended March 31, 2007:

(in millions)	
Fair value of contracts at beginning of period, net asset	$ 1
Unrealized gains and losses recognized at contract inception during the period	-
Realized gains and losses recognized during the period	-
Changes in fair values attributable to changes in valuation techniques and assumptions	(2)
Other unrealized gains and losses and changes in fair values	-
Fair value of contracts at end of period, net (liability) asset	$ (1)

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007, had a maturity of less than one year. There were no contracts outstanding at March 31, 2008. All amounts for 2008 are less than $1 million. Energy trading and risk management contracts are valued using Level 1, prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

(in millions)	Pension Benefits 2008	Pension Benefits 2007	Other Postretirement Benefits 2008	Other Postretirement Benefits 2007
Service cost	$ 1	$ 1	$ -	$ 1
Interest cost	6	8	1	1
Expected return on plan assets	(7)	(11)	-	-
Amortization of prior service costs	1	2	1	1
Amortization of actuarial loss	-	1	-	-
Benefit cost year-to-date	$ 1	$ 2	$ 1	$ 2

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to LG&E.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, LG&E made contributions to other postretirement benefit plans of approximately $2 million. LG&E anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company, or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No 109,* effective January 1, 2007. At the date of adoption, LG&E had $1 million of unrecognized tax benefits related to federal and state income taxes. If recognized, the entire $1 million of unrecognized tax benefits would reduce the effective income tax rate.

Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2008 and March 31, 2007. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48, or through March 31, 2008.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $1 million and $3 million during the three months ended March 31, 2008 and March 31, 2007, respectively, decreasing current federal income taxes.

In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. LG&E is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $160 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County Series 2001 A and B, Trimble County Series 2001 A and B and Jefferson County Series 2005 A. Maturity dates for these bonds range from 2026 to 2035. LG&E does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the three months ended March 31, 2008, was 3.23%.

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. There was no outstanding balance under any of these facilities at March 31, 2008. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012.

Pollution control series bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during April 2007, the county's debt was also secured by an equal amount of LG&E's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless LG&E defaults on the loan agreement.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2008, LG&E had an aggregate $574 million of outstanding pollution control indebtedness, of which $354 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" where there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the three months ended March 31, 2008 and March 31, 2007, the average rate on the auction rate bonds was 4.82% and 3.65%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. LG&E will hold some or all of such bonds until a later date, including potential further conversion, remarketing or refinancing. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 10, Subsequent Events.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$400	$108	$292	3.08%
December 31, 2007	$400	$78	$322	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at March 31, 2008 and $150 million at December 31, 2007, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$311	$94	$217	3.36%
December 31, 2007	$150	$62	$88	4.97%

There were no redemptions or issuances of long-term debt year-to-date through March 31, 2008.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had approximately $105 million of commitments in connection with its construction program at March 31, 2008.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in the first quarter of 2008 was approximately 0.51 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In February 2008, a federal appellate court issued a decision vacating the CAMR, but the EPA and other parties have filed a motion for rehearing. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR, but those state requirements are likely to be revised to reflect the outcome of the challenge to the CAMR at the federal level. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants, but those rules are not expected to have a material impact on LG&E's power plant operations.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2007 time period at a cost of $197 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR, LG&E expects to incur additional capital expenditures totaling $130 million during the 2008 through 2010 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

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

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

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and ongoing claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment for the three months ended March 31 follow:

(in millions)	Three Months Ended March 31, 2008	2007
LG&E Electric		
Revenues	$ 224	$ 222
Net income	11	21
Total assets	2,680	2,570
LG&E Gas		
Revenues	191	153
Net income	10	11
Total assets	604	553
Total		
Revenues	415	375
Net income	21	32
Total assets	3,284	3,123

Note 9 - Related Party Transactions

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

Electric Purchases

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

(in millions)	2008	2007
Electric operating revenues from KU	$27	$30
Purchased power from KU	14	18

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2008	2007
Interest on money pool loans	$ 1	$ 1
Interest on Fidelia loans	5	3

Other Intercompany Billings

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

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

Intercompany billings to and from LG&E for the three months ended March 31 were as follows:

(in millions)	2008	2007
E.ON U.S. Services billings to LG&E	$42	$123
LG&E billings to KU	1	10
KU billings to LG&E	23	14
LG&E billings to E.ON U.S. Services	3	1

In March 2008, LG&E paid a dividend of $40 million to its common shareholder, E.ON U.S. LLC.

Note 10 - Subsequent Events

On April 4, 2008, the 2007 Series A and B bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

On May 1, 2008, the 2000 Series A bonds were converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three month period ended March 31, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. As of December 31, 2007, LG&E provided natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties. LG&E also provides natural gas service in limited additional areas. LG&E's coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions, produce most of LG&E's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

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

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Net Income

Net income for the three months ended March 31, 2008, decreased $11 million compared to the same period in 2007. The decrease was primarily the result of increased operating expenses ($51 million) and increased interest expense ($6 million), partially offset by increased revenues ($40 million) and decreased income taxes ($6 million), attributable to a decreased pre-tax income.

Revenues

Electric revenues in the three months ended March 31, 2008, increased $2 million primarily due to:

- Increased fuel costs ($5 million) billed to customers through the FAC due to higher fuel costs (coal and natural gas) and higher transportation costs
- Increased ECR surcharge ($2 million) due to increased recoverable capital spending
- Decreased wholesale sales ($5 million) due to increased native load demand

Natural gas revenues in the three months ended March 31, 2008, increased $38 million primarily due to:

- Increased average cost of gas billed to retail customers ($23 million) due to higher gas expenses
- Increased volumes ($17 million), resulting from an 8% increase in heating degree days in the first quarter of 2008 as compared to the same period in 2007
- Decreased wholesale sales ($2 million)

Expenses

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

Fuel for electric generation increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased spot market pricing for coal/natural gas ($7 million) due to mine safety compliance costs and higher transportation costs
- Decreased generation ($3 million) due to lower wholesale sales

Power purchased expense decreased $2 million in the three months ended March 31, 2008, primarily due to:

- Decreased volumes purchased ($5 million) due to lower intercompany purchases and higher native load
- Increased cost per mWh of purchases ($3 million) due to higher fuel prices

Gas supply expenses increased $38 million in the three months ended March 31, 2008, primarily due to:

- Increased cost of net gas supply ($29 million) due to higher inventory unit cost and adjustments to the GSC for recoveries
- Increased volumes of natural gas delivered to the distribution system ($9 million) due to higher demand

Other operation and maintenance expenses increased $11 million in the three months ended March 31, 2008, primarily due to increased maintenance expenses ($9 million) and increased other operation expenses ($2 million).

Maintenance expense increased $9 million in the three months ended March 31, 2008, primarily due to:

- Increased boiler maintenance expense ($5 million) due to spring outages
- Increased electric maintenance ($2 million) due to major inspection work
- Increased contractor and overtime labor ($2 million) related to storm restoration

Other operation expense increased $2 million in the three months ended March 31, 2008, primarily due to:

- Increased scrubber reactant expense ($1 million) due to higher priced lime contract
- Increased labor expense ($1 million) resulting from storm restoration

Interest expense, including interest expense to affiliated companies, increased $6 million in the three months ended March 31, 2008, primarily due to:

- Increased interest expense ($3 million) due to increased variable rates on pollution control bonds
- Increased interest expense to affiliated companies ($3 million) due to increased borrowings from affiliated companies

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	2.7	3.3
Reserve release	0.0	(0.2)
Amortization of investment tax credits	(3.2)	(2.1)
Other differences	(2.3)	(2.7)
Effective income tax rate	32.2%	33.3%

The effective income tax rate decreased for the three months ended March 31, 2008, compared to the three months ended March 31, 2007, due primarily to a decrease in state income taxes net of federal benefit due to an increase in state coal credits and a decrease in amortization of investment tax credits due to the changes in levels of pretax income.

Liquidity and Capital Resources

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

Operating Activities

Cash provided by operations was $105 million and $84 million for the three months ended March 31, 2008 and 2007, respectively.

The 2008 increase of $21 million was primarily the result of increases in cash due to changes in:

- Pension and post retirement funding ($57 million) due to higher pension funding in 2007
- Materials and supplies ($19 million)
- Gas supply clause receivable ($15 million)
- Prepayments and other current assets ($8 million)

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

- Accounts payable ($24 million)
- Accounts receivable ($24 million)
- Earnings, net of non-cash items ($18 million)
- Other current liabilities ($5 million)
- Accrued income taxes ($5 million)
- Other ($2 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $67 million and $34 million in the three months ended March 31, 2008 and 2007, respectively. Net cash used for investing activities decreased $21 million in the three months ended March 31, 2008 compared to 2007, due to decreased capital expenditures of $33 million and increased restricted cash of $12 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash outflows from financing activities were $44 million in the three months ended March 31, 2008 and 2007, respectively.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $735 million, consisting primarily of construction of TC2 totaling approximately $85 million (including $25 million for environmental controls), gas main replacement initiatives of approximately $50 million, redevelopment of the Ohio Falls hydroelectric facility totaling approximately $45 million, a customer care system totaling approximately $30 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to LG&E at market-based rates. Fidelia also provides long-term intercompany funding to LG&E. See Note 6 of Notes to Financial Statements.

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In

November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds.

LG&E's debt ratings as of March 31, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Controls and Procedures

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

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

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report have not materially changed.

Other

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

2007 - 3rd Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements
(Unaudited)

As of September 30, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DOE	U.S. Department of Energy
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2

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Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
OPERATING REVENUES:				
Electric (Note 8)	$ 270	$ 269	$ 718	$ 704
Gas (Note 8)	36	34	240	288
Total operating revenues	306	303	958	992
OPERATING EXPENSES:				
Fuel for electric generation	89	86	245	221
Power purchased	17	26	60	81
Gas supply expenses	23	19	171	219
Other operation and maintenance expenses	67	70	201	212
Depreciation and amortization	31	31	94	92
Total operating expenses	227	232	771	825
OPERATING INCOME	79	71	187	167
Other expense (income) – net	(1)	(2)	-	(1)
Interest expense (Notes 3, 5 and 6)	7	8	22	22
Interest expense to affiliated companies (Note 9)	6	3	15	9
INCOME BEFORE INCOME TAXES	67	62	150	137
Federal and state income taxes (Note 5)	22	22	49	47
NET INCOME	$ 45	$ 40	$ 101	$ 90

The accompanying notes are an integral part of these financial statements

Louisville Gas and Electric Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Balance at beginning of period	$ 625	$ 609	$ 639	$ 621
Net income	45	40	101	90
Preferred stock buyback	-	-	(4)	-
Subtotal	670	649	736	711
Cash dividends declared on stock:				
Cumulative preferred	-	-	1	2
Common	-	35	65	95
Subtotal	-	35	66	97
Balance at end of period	$ 670	$ 614	$ 670	$ 614

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS

	September 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 3	$ 7
Accounts receivable – less reserves of $2 million	144	165
Accounts receivable from affiliated companies (Note 9)	10	19
Materials and supplies:		
Fuel (predominantly coal)	42	38
Gas stored underground	84	83
Other materials and supplies	31	30
Prepayments and other current assets	5	9
Total current assets	319	351
Other property and investments	1	1
Utility plant:		
At original cost	4,249	4,123
Less: reserve for depreciation	1,606	1,534
Net utility plant	2,643	2,589
Deferred debits and other assets:		
Restricted cash (Note 3)	19	16
Regulatory assets (Note 2):		
Pension and postretirement benefits	126	126
Other	99	93
Other assets	10	8
Total deferred debits and other assets	254	243
Total assets	$ 3,217	$ 3,184

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 120	$ 248
Notes payable to affiliated companies (Note 6 and Note 9)	106	68
Accounts payable	89	103
Accounts payable to affiliated companies (Note 9)	36	55
Customer deposits	19	18
Other current liabilities	39	40
Total current liabilities	409	532
Long-term debt:		
Long-term debt (Note 6)	455	328
Long-term debt to affiliated company (Note 6 and Note 9)	363	225
Mandatorily redeemable preferred stock	-	19
Total long-term debt	818	572
Deferred credits and other liabilities:		
Accumulated deferred income taxes	341	333
Accumulated provision for pensions and related benefits	95	149
Investment tax credit	47	41
Asset retirement obligation	29	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	239	232
Deferred income taxes – net and other	70	89
Other liabilities	43	44
Total deferred credits and other liabilities	864	916
Cumulative preferred stock	-	70
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(8)	(9)
Retained earnings	670	639
Total common equity	1,126	1,094
Total liabilities and equity	$ 3,217	$ 3,184

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 101	$ 90
Items not requiring cash currently:		
Depreciation and amortization	94	92
Deferred income taxes - net	4	(3)
VDT amortization	-	7
Investment tax credit - net	6	-
Other	(2)	(3)
Changes in current assets and liabilities:		
Accounts receivable	30	130
Materials and supplies	(6)	34
Accounts payable	(32)	(64)
Accrued income taxes	(2)	2
Other current assets	4	-
Other current liabilities	3	15
Pension funding (Note 4)	(56)	(18)
Fuel adjustment clause receivable, net	(10)	(10)
Gas supply clause receivable, net	(21)	32
MISO exit	-	(13)
Other	8	(3)
Net cash provided by operating activities	121	288
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(137)	(104)
Change in restricted cash	(3)	1
Net cash used for investing activities	(140)	(103)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of affiliated company debt (Note 6)	266	-
Repayment of debt from affiliated company (Note 6)	(90)	(89)
Retirement of first mortgage bonds (Note 6)	(126)	(1)
Issuance of pollution control bonds (Note 6)	126	-
Retirement of preferred stock (Note 6)	(92)	-
Payment of dividends	(69)	(97)
Net cash provided by (used for) financing activities	15	(187)
CHANGE IN CASH AND CASH EQUIVALENTS	(4)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3	$ 5

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 45	$ 40	$ 101	$ 90
Gain (loss) on derivative instruments and hedging activities – net of tax benefit (expense) of $3 million, $4 million, $(1) million and $(1) million, respectively (Note 3)	(4)	(6)	1	2
Comprehensive income, net of tax	(4)	(6)	1	2
Comprehensive income	$ 41	$ 34	$ 102	$ 92

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

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2006, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous year's financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. LG&E adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. LG&E will adopt SFAS No. 159 effective January 1, 2008, and expects no impact on its financial statements upon adoption.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to LG&E's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	September 30, 2007	December 31, 2006
ARO	$ 24	$ 22
Unamortized loss on bonds	19	20
Gas supply adjustments	16	21
FAC	14	4
MISO exit	13	13
ECR	4	9
Other	9	4
Subtotal	99	93
Pension and postretirement benefits	126	126
Total regulatory assets	$ 225	$ 219
Accumulated cost of removal of utility plant	$ 239	$ 232
Deferred income taxes – net	50	54
Gas supply adjustments	12	31
Other	8	4
Total regulatory liabilities	$ 309	$ 321

LG&E does not currently earn a rate of return on the regulatory assets associated with the gas supply cost and gas performance-based ratemaking adjustments (both made through the Gas Supply Clause) and FAC; both the Gas Supply Clause and the FAC are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged LG&E's recovery of $0.5 million in aggregate fuel costs LG&E incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. Final briefs were filed by the Company and the intervenors in June 2007. In October 2007, the Kentucky Commission issued its Order in this proceeding. The Kentucky Commission findings were that LG&E incurred no improper fuel cost during the two-year review period and that LG&E was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved LG&E's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. The Company expects a ruling from the Kentucky Commission by the end of November 2007.

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

In September 2007, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. These proceedings are expected to be completed in the first quarter of 2008.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

Other Regulatory Matters

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

Market-Based Rate Authority. LG&E has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, LG&E must comply with affiliate restrictions housed in FERC's Commissions regulation unless otherwise permitted by Commission rule or order.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an administrative order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

As part of the LG&E 2004 rate case settlement agreements, and as referred to in the Kentucky Commission EPAct 2005 administrative order, LG&E made its Responsive Pricing and Smart Metering Pilot Program filing, which addresses real-time pricing for residential and general service customers, in March 2007. The plan was approved by the Kentucky Commission in July 2007.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field. The review relates, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions are required or advisable. During March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. In July 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status for retail gas activities. This corrective event places these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of September 30, 2007 and December 31, 2006. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 3.87% at September 30, 2007. The swap agreements in effect at September 30, 2007, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be fully effective resulting in a pre-tax gain of $2 million for the nine months ended September 30, 2007, recorded in other comprehensive income. Upon expiration of these hedges, the amount recorded in other comprehensive income will be reclassified into earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $9 million, used as collateral for one of the interest rate swaps, is included in restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap. The remaining restricted cash relates to construction deposits.

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

The table below summarizes LG&E's energy trading and risk management activities for the nine months ended September 30:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	-	2
Contracts realized or otherwise settled during the period	-	(3)
Changes in fair values due to changes in assumptions	(1)	5
Fair value of contracts at end of period, net asset	$ -	$ 5

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at September 30, 2007 and 2006, had a maturity of less than one year and were valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other postretirement benefit plans:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
(in millions)								
Service cost	$ -	$ 1	$ -	$ -	$ 3	$ 3	$ 1	$ 1
Interest cost	6	6	2	1	19	17	4	4
Expected return on plan assets	(7)	(6)	-	-	(25)	(20)	-	-
Amortization of prior service costs	1	1	-	1	4	3	1	2
Amortization of actuarial loss	-	1	-	-	1	3	-	-
Amortization of transitional obligation	-	(1)	-	1	-	(1)	-	1
Benefit cost	$ -	$ 2	$ 2	$ 3	$ 2	$ 5	$ 6	$ 8

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to LG&E.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. LG&E does not expect to make any further contributions to the pension plans in 2007. LG&E made contributions of approximately $6 million to other postretirement benefit plans for the nine months ended September 30, 2007. LG&E anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company, or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2004. Statutes of limitations related to the 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, LG&E had $7 million of unrecognized tax benefits, $5 million related to federal income taxes and $2 million related to state income taxes. If recognized, the entire $7 million of unrecognized tax benefits would reduce the effective tax rate.

Included in other liabilities at September 30, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at both September 30, 2007 and December 31, 2006. No penalties were accrued by LG&E upon adoption of FIN 48 or through September 30, 2007.

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. An additional IRS certification required to obtain the investment tax credit was received in August 2007. LG&E's portion of the tax credit will be approximately $24 million over the construction period of TC2 and will be amortized to income over the life of the related property. In the third quarter of 2007, based on eligible construction expenditures incurred in 2007, LG&E recorded $3 million of federal investment tax credit. The credit recorded decreased current federal income taxes by $3 million, during the three months ended September 30, 2007, and $8 million for the nine months ended September 30, 2007.

Note 6 - Short-Term and Long-Term Debt

All of LG&E's first mortgage bonds were released and terminated in April 2007. Only the tax-exempt revenue bonds issued by the counties remain. Under the provisions for certain of LG&E's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the nine months ended September 30, 2007 was 3.69%.

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. There was no outstanding balance under any of these facilities at September 30, 2007. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2007	$400	$106	$294	5.62%
December 31, 2006	$400	$68	$332	5.25%

E.ON U.S. maintains a revolving credit facility totaling $150 million and $200 million at September 30, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2007	$150	$122	$28	5.45%
December 31, 2006	$200	$102	$98	5.49%

Redemptions of long-term debt year-to-date through September 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Secured	2017
2007	Pollution control bonds	$60	Variable	Secured	2017
2007	Pollution control bonds	$35	Variable	Secured	2013

Issuances of long-term debt year-to-date through September 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Unsecured	2033
2007	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	Pollution control bonds	$35	Variable	Unsecured	2033
2007	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	Due to Fidelia	$68	5.93%	Unsecured	2031

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

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

Dividends on the shares of preferred stock ceased to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.
In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million.

In April 2007, LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter.

In April 2007, LG&E completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps.

As of April 27, 2007, LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report for information regarding such commitments or contingencies.

Construction Program. LG&E had approximately $94 million of commitments in connection with its construction program at September 30, 2007.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. In December 2005, the Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final order approving the hearing officer's recommendation and upholding the permit. The Sierra Club did not seek judicial review of the final order. In addition, the Company applied for a permit revision to reflect minor design changes to TC2. In October 2007, the Sierra Club submitted comments to the Cabinet objecting to the draft permit revision and attempting to reassert its previous general objections to the generating unit. The Company is currently unable to predict the ultimate outcome of this matter.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in the third quarter of 2007 was 0.49 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on LG&E's power plant operations.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and to continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 to 2006 time period at a cost of $187 million. In 2001, the Kentucky Commission granted recovery in principle of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principle of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states, including 11 northeastern U.S. states under the Regional GHG Initiative program and California, have adopted their own GHG emission reduction programs. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts may provide additional clarification of the authority of the EPA and the states. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

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

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding GHG emissions from LG&E's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
LG&E Electric				
Revenues	$ 270	$ 269	$718	$ 704
Net income	50	43	97	86
Total assets	2,606	2,454	2,606	2,454
LG&E Gas				
Revenues	36	34	240	288
Net income	(5)	(3)	4	4
Total assets	611	563	611	563
Total				
Revenues	306	303	958	992
Net income	45	40	101	90
Total assets	3,217	3,017	3,217	3,017

Note 9 - Related Party Transactions

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

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail customers and to satisfy off-system sales. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2007	2006	2007	2006
Electric operating revenues from KU	$18	$23	$71	$67
Purchased power from KU	7	17	33	52

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2007	2006	2007	2006
Interest on money pool loans	$1	$-	$3	$1
Interest on Fidelia loans	5	3	12	8

Other Intercompany Billings

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

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of

LG&E, primarily tax settlements, and services provided by LG&E to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2007	2006	2007	2006
E.ON U.S. Services billings to LG&E	$52	$ 57	$302	$162
LG&E billings to KU	2	21	35	31
KU billings to LG&E	11	14	33	29
LG&E billings to E.ON U.S. Services	9	1	11	4

During the nine months ended September 30, 2007, LG&E paid dividends of $65 million to its common shareholder, E.ON U.S.

2007 - 2nd Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements

(Unaudited)

As of June 30, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON U.S. Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING REVENUES:				
Electric (Note 8)	$ 226	$ 223	$ 449	$ 435
Gas (Note 8)	51	54	203	254
Total operating revenues	277	277	652	689
OPERATING EXPENSES:				
Fuel for electric generation	79	70	156	135
Power purchased	16	26	42	54
Gas supply expenses	34	38	148	200
Other operation and maintenance expenses	66	65	135	143
Depreciation and amortization	32	31	63	61
Total operating expenses	227	230	544	593
OPERATING INCOME	50	47	108	96
Other expense (income) – net	(1)	1	1	1
Interest expense (Notes 3, 5 and 6)	9	6	15	13
Interest expense to affiliated companies (Note 9)	6	3	8	7
INCOME BEFORE INCOME TAXES	36	37	84	75
Federal and state income taxes (Note 5)	12	12	28	25
NET INCOME	$ 24	$ 25	$ 56	$ 50

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

Louisville Gas and Electric Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Balance at beginning of period	$ 635	$ 605	$ 639	$ 621
Net income	24	25	56	50
Preferred stock buyback	(4)	-	(4)	-
Subtotal	655	630	691	671
Cash dividends declared on stock:				
Cumulative preferred	-	1	1	2
Common	30	20	65	60
Subtotal	30	21	66	62
Balance at end of period	$ 625	$ 609	$ 625	$ 609

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS

	June 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 5	$ 7
Accounts receivable – less reserves of $2 million as of June 30, 2007 and December 31, 2006	129	165
Accounts receivable from affiliated companies (Note 9)	32	19
Materials and supplies:		
Fuel (predominantly coal)	46	38
Gas stored underground	29	83
Other materials and supplies	30	30
Prepayments and other current assets	8	9
Total current assets	279	351
Other property and investments	1	1
Utility plant:		
At original cost	4,193	4,123
Less: reserve for depreciation	1,581	1,534
Net utility plant	2,612	2,589
Deferred debits and other assets:		
Restricted cash	24	16
Regulatory assets (Note 2):		
Pension and postretirement benefits	126	126
Other	99	93
Other assets	14	8
Total deferred debits and other assets	263	243
Total assets	$ 3,155	$ 3,184

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY

	June 30, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 120	$ 248
Notes payable to affiliated companies (Note 6 and Note 9)	87	68
Accounts payable	80	103
Accounts payable to affiliated companies (Note 9)	67	55
Customer deposits	19	18
Other current liabilities	23	40
Total current liabilities	396	532
Long-term debt:		
Long-term debt (Note 6)	455	328
Long-term debt to affiliated company (Note 9)	363	225
Mandatorily redeemable preferred stock	-	19
Total long-term debt	818	572
Deferred credits and other liabilities:		
Accumulated deferred income taxes	339	333
Accumulated provision for pensions and related benefits	95	149
Investment tax credit	44	41
Asset retirement obligation	29	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	236	232
Deferred income taxes – net and other	67	89
Other liabilities	46	44
Total deferred credits and other liabilities	856	916
Cumulative preferred stock	-	70
Common equity:		
Common stock, without par value – Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(4)	(9)
Retained earnings	625	639
Total common equity	1,085	1,094
Total liabilities and equity	$ 3,155	$ 3,184

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 56	$ 50
Items not requiring cash currently:		
Depreciation and amortization	63	61
Deferred income taxes - net	3	(13)
VDT amortization	-	7
Investment tax credit - net	3	(2)
Other	-	(1)
Changes in current assets and liabilities:		
Accounts receivable	23	125
Materials and supplies	46	81
Accounts payable	(4)	(66)
Other current liabilities	(10)	12
Pension funding (Note 4)	(56)	(18)
Gas supply clause receivable, net	(27)	31
Other	(2)	(4)
Net cash provided by operating activities	95	263
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(86)	(66)
Change in restricted cash	(8)	3
Net cash used for investing activities	(94)	(63)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company (Note 6)	138	-
Short-term borrowings from affiliated company (Note 6)	90	-
Repayment of short-term borrowings from affiliated company (Note 6)	(71)	(140)
Retirement of first mortgage bonds (Note 6)	(126)	-
Issuance of pollution control bonds (Note 6)	126	-
Retirement of preferred stock (Note 6)	(91)	-
Payment of dividends	(69)	(62)
Net cash used for financing activities	(3)	(202)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5	$ 5

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net income	$ 24	$ 25	$ 56	$ 50
Gain on derivative instruments and hedging activities – net of tax (expense) of $(3) million, $(2) million, $(3) million and $(5) million, respectively (Note 3)	5	3	5	8
Comprehensive income, net of tax	5	3	5	8
Comprehensive income	$ 29	$ 28	$ 61	$ 58

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

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

See LG&E's Annual Report on Form 10-K for the year ended December 31, 2006, for information relevant to the accompanying financial statements, including information as to the Company's significant accounting policies.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes.* FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. LG&E adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. LG&E will adopt SFAS No. 159 effective January 1, 2008, and expects no impact on its financial statements upon adoption.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 2 of LG&E's Annual Report on Form 10-K for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	June 30, 2007	December 31, 2006
ARO	$ 23	$ 22
Gas supply adjustments	19	21
Unamortized loss on bonds	20	20
MISO exit	13	13
ECR	6	9
FAC	9	4
Other	9	4
Subtotal	99	93
Pension and postretirement benefits	126	126
Total regulatory assets	$ 225	$ 219
Accumulated cost of removal of utility plant	$ 236	$ 232
Deferred income taxes – net	51	54
Gas supply adjustments	8	31
Other	8	4
Total regulatory liabilities	$ 303	$ 321

LG&E does not currently earn a rate of return on the regulatory assets associated with the gas supply cost and gas performance-based ratemaking adjustments (both made through the Gas Supply Clause) and FAC; both the Gas Supply Clause and the FAC are separate recovery mechanisms. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets.

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

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged LG&E's recovery of $0.5 million in aggregate fuel costs LG&E incurred during a period prior to its exit from the MISO and requested the Kentucky

Commission disallow this amount. A public hearing was held in May 2007. Final briefs were filed by the Company and the intervenors in June 2007. A Kentucky Commission decision is expected in the third quarter of 2007.

Other Regulatory Matters

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

Market-Based Rate Authority. LG&E has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations. LG&E continues to analyze the revised FERC regulations and their impacts, if any, on its market-based rate authority and/or wholesale power sales.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an administrative order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

As part of the LG&E 2004 rate case settlement agreements, and as referred to in the Kentucky Commission EPAct 2005 administrative order, LG&E made its Responsive Pricing and Smart Metering Pilot Program filing, which addresses real-time pricing for residential and general service customers, in March 2007. The plan was approved by the Kentucky Commission in July 2007. See Note 10, Subsequent Events.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field. The review relates, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions are required or advisable. During March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. In July 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status for retail gas activities. This corrective event places these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions. See Note 10, Subsequent Events.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of June 30, 2007 and December 31, 2006. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 3.66% at June 30, 2007. The swap agreements in effect at June 30, 2007, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be fully effective resulting in a pre-tax gain of $5 million for the six months ended June 30, 2007, recorded in other comprehensive income. Upon expiration of these hedges, the amount recorded in other comprehensive income will be reclassified into earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $11 million, used as collateral for one of the interest rate swaps, is included in restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities for the six months ended June 30:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	1	1
Contracts realized or otherwise settled during the period	-	(3)
Changes in fair values due to changes in assumptions	(2)	3
Fair value of contracts at end of period, net asset	$ -	$ 2

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at June 30, 2007 and 2006, had a maturity of less than one year and were valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other postretirement benefit plans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
(in millions)								
Service cost	$ 2	$ 1	$ 1	$ 1	$ 3	$ 2	$ 1	$ 1
Interest cost	5	5	1	2	13	11	2	3
Expected return on plan assets	(7)	(7)	-	-	(18)	(14)	-	-
Amortization of prior service costs	1	1	-	-	3	2	1	1
Amortization of actuarial loss	-	1	-	-	1	2	-	-
Benefit cost	$ 1	$ 1	$ 2	$ 3	$ 2	$ 3	$ 4	$ 5

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to LG&E.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. LG&E does not expect to make any further contributions to the pension plans in 2007. LG&E made contributions of approximately $1 million to other postretirement benefit plans during the first quarter of 2007, and $3 million for the six months ended June 30, 2007. LG&E anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company, or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. Statutes of limitations related to the 2003 and later returns are still open. The 2003 year has been reviewed by the IRS with no proposed changes. Tax years 2005 and 2006 are included with the federal audit of tax year 2007. The 2007 return is being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

LG&E adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, LG&E had $7 million of unrecognized tax benefits, $5 million related to federal income taxes and $2 million related to state income taxes. If recognized, the entire $7 million of unrecognized tax benefits would affect the effective tax rate.

Included in other liabilities at June 30, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at June 30, 2007 and December 31, 2006. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48 or through June 30, 2007.

In June 2006, LG&E and KU filed a joint application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. LG&E's portion of the tax credit will be approximately $24 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In the second quarter of 2007, based on eligible construction expenditures incurred in 2007, LG&E recorded a federal investment tax credit. The credit decreased current federal income taxes by $3 million, during the three months ended June 30, 2007, and $5 million for the six months ended June 30, 2007.

Note 6 - Short-Term and Long-Term Debt

All of LG&E's first mortgage bonds were released and terminated in April 2007. Only the tax-exempt revenue bonds issued by the counties remain. Under the provisions for certain of LG&E's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the six months ended June 30, 2007 was 3.66%.

During June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral lines of credit facilities totaling $125 million. There was no outstanding balance under any of these facilities at June 30, 2007. LG&E expects to extend these short-term facilities for an additional four year term, pending regulatory approval, prior to their expiration in June 2008.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2007	$400	$87	$313	5.26%
December 31, 2006	$400	$68	$332	5.25%

E.ON U.S. maintains a revolving credit facility totaling $150 million and $200 million at June 30, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2007	$150	$ 69	$81	5.65%
December 31, 2006	$200	$102	$98	5.49%

Redemptions of long-term debt year-to-date through June 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Secured	2017
2007	Pollution control bonds	$60	Variable	Secured	2017
2007	Pollution control bonds	$35	Variable	Secured	2013

Issuances of long-term debt year-to-date through June 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$31	Variable	Unsecured	2033
2007	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	Pollution control bonds	$35	Variable	Unsecured	2033
2007	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	Due to Fidelia	$68	5.93%	Unsecured	2031

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

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

Dividends on the shares of preferred stock ceased to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million.

In April 2007, LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter.

In April 2007, LG&E completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps.

As of April 27, 2007, LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report on Form 10-K for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report on Form 10-K for information regarding such commitments or contingencies.

Construction Program. LG&E had approximately $140 million of commitments in connection with its construction program at June 30, 2007.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. In December 2005, the Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit. The filing of the appeal did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. After considering the hearing officer's recommendation and exceptions filed by the parties, the Secretary of the Kentucky Environmental and Public Protection Cabinet is expected to issue a final order with respect to the permit during the fourth quarter of 2007.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in the second quarter of 2007 was 0.45 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on LG&E's power plant operations.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and to continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 to 2006 time period at a cost of $187 million. In 2001, the Kentucky Commission granted recovery in principle of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principle of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states, including 11 northeastern U.S. states under the Regional GHG Initiative program and California, have adopted their own GHG emission reduction programs. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts may provide additional clarification of the authority of the EPA and the states. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding GHG emissions from LG&E's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
LG&E Electric				
Revenues	$ 226	$ 223	$ 449	$ 435
Net income	26	27	47	42
Total assets	2,598	2,440	2,598	2,440
LG&E Gas				
Revenues	51	54	203	254
Net income	(2)	(2)	9	8
Total assets	557	507	557	507
Total				
Revenues	277	277	652	689
Net income	24	25	56	50
Total assets	3,155	2,947	3,155	2,947

Note 9 - Related Party Transactions

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

Electric Purchases

LG&E and KU purchase energy from each other in order to effectively manage the load of their retail customers and to satisfy off-system sales. These sales and purchases are included in the statements of income as electric operating revenues and purchased power operating expense. LG&E intercompany electric revenues and purchased power expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2007	2006	2007	2006
Electric operating revenues from KU	$23	$22	$53	$44
Purchased power from KU	8	17	26	36

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2007	2006	2007	2006
Interest on money pool loans	$1	$-	$2	$1
Interest on Fidelia loans	5	3	7	6

Other Intercompany Billings

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

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services relate to information technology-related services provided by LG&E employees, cash received by E.ON U.S. Services on behalf of LG&E and services provided by LG&E to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E are as follows:

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
E.ON U.S. Services billings to LG&E	$154	$ 69	$277	$105
LG&E billings to KU	23	6	33	10
KU billings to LG&E	8	3	22	15
LG&E billings to E.ON U.S. Services	28	2	29	3

During the six months ended June 30, 2007, LG&E paid dividends of $65 million to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

On July 12, 2007, the Kentucky Commission approved LG&E's Responsive Pricing and Smart Metering Pilot Program. The program addresses real-time pricing for residential and general service customers.

In March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. On July 12, 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status regarding retail gas activities. This corrective event places these activities in compliance for future periods. On August 6, 2007 the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

2007 – 1st Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements
(Unaudited)

As of March 31, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON U.S. Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2

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Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
OPERATING REVENUES:		
Electric	$ 222	$ 213
Gas	153	200
Total operating revenues	375	413
OPERATING EXPENSES:		
Fuel for electric generation	76	64
Power purchased	26	29
Gas supply expenses	115	162
Other operation and maintenance expenses	69	78
Depreciation and amortization	31	30
Total operating expenses	317	363
OPERATING INCOME	58	50
Other expense – net	2	-
Interest expense (Notes 3 and 6)	5	7
Interest expense to affiliated companies (Note 9)	3	4
INCOME BEFORE INCOME TAXES	48	39
Federal and state income taxes	16	13
NET INCOME	$ 32	$ 26

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 639	$ 621
Net income	32	26
Subtotal	671	647
Cash dividends declared on stock:		
Cumulative preferred	1	1
Common	35	40
Subtotal	36	41
Balance at end of period	$ 635	$ 606

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March, 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 6	$ 7
Accounts receivable – less reserves of $2 million as of March 31, 2007 and December 31, 2006	138	165
Accounts receivable from affiliated companies (Note 9)	17	19
Materials and supplies:		
Fuel (predominantly coal)	43	38
Gas stored underground	30	83
Other materials and supplies	30	30
Prepayments and other current assets	6	6
Total current assets	270	348
Utility plant:		
At original cost	4,155	4,123
Less: reserve for depreciation	1,560	1,534
Net utility plant	2,595	2,589
Deferred debits and other assets:		
Restricted cash	23	16
Regulatory assets (Note 2):		
Pension and postretirement benefits	126	126
Other	97	93
Other assets	12	12
Total deferred debits and other assets	258	247
Total assets	$ 3,123	$ 3,184

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 247	$ 247
Current portion of mandatorily redeemable preferred stock	20	1
Notes payable to affiliated companies (Note 6 and Note 9)	24	68
Accounts payable	91	103
Accounts payable to affiliated companies (Note 9)	68	55
Customer deposits	19	18
Dividend payable	35	-
Other current liabilities	48	40
Total current liabilities	552	532
Long-term debt:		
Long-term debt (Note 6)	328	328
Long-term debt to affiliated company (Note 6)	225	225
Mandatorily redeemable preferred stock	-	19
Total long-term debt	553	572
Deferred credits and other liabilities:		
Accumulated deferred income taxes	335	333
Accumulated provision for pensions and related benefits	95	149
Investment tax credit	43	41
Asset retirement obligation	29	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	236	232
Deferred income taxes – net	53	54
Gas supply adjustment and other	18	35
Other liabilities	49	44
Total deferred credits and other liabilities	858	916
Cumulative preferred stock	70	70
Common equity:		
Common stock, without par value –		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(9)	(9)
Retained earnings	635	639
Total common equity	1,090	1,094
Total liabilities and equity	$ 3,123	$ 3,184

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 32	26
Items not requiring cash currently:		
Depreciation and amortization	31	30
Deferred income taxes – net	1	(11)
VDT amortization	-	7
Other	2	-
Changes in current assets and liabilities:		
Accounts receivable	29	90
Material and supplies	48	71
Accounts payable	2	(63)
Accrued income taxes	5	22
Other current liabilities	7	4
Pension funding	(56)	(18)
Gas supply clause receivable, net	(23)	23
Other	-	(9)
Net cash provided by operating activities	78	172
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(34)	(32)
Net cash used for investing activities	(34)	(32)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term borrowings from affiliated company (Note 9)	(68)	-
Short-term borrowing from affiliated company	24	-
Repayment of short-term borrowings from affiliated company (Note 6)	-	(99)
Payment of dividends	(1)	(41)
Net cash used in financing activities	(45)	(140)
CHANGE IN CASH AND CASH EQUIVALENTS	(1)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6	$ 7

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2007	2006
Net income	$ 32	$ 26
Gain on derivative instruments and hedging activities – net of tax (expense) of less than $(1) million and $(3) million, respectively (Note 3)	-	5
Comprehensive income, net of tax	-	5
Comprehensive income	$ 32	$ 31

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

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

See LG&E's Annual Report on Form 10-K for the year ended December 31, 2006, for information relevant to the accompanying financial statements, including information as to the Company's significant accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. LG&E adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. LG&E is currently evaluating the impact of SFAS No. 159, but does not expect its adoption to have a material impact on its statements of operations, financial position and cash flows.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 2 of LG&E's Annual Report on Form 10-K for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

Louisville Gas and Electric Company
(unaudited)

(in millions)	March 31, 2007	December 31, 2006
Gas supply adjustments	$ 24	$ 21
ARO	23	22
Unamortized loss on bonds	19	20
MISO exit	13	13
ECR	8	9
FAC	6	4
Other	4	4
Subtotal	97	93
Pension and postretirement benefits	126	126
Total regulatory assets	$ 223	$ 219
Accumulated cost of removal of utility plant	$ 236	$ 232
Deferred income taxes – net	53	54
Gas supply adjustments ($12 and $31 million at March 31, 2007 and December 31, 2006, respectively) and other	18	35
Total regulatory liabilities	$ 307	$ 321

LG&E does not currently earn a rate of return on the regulatory assets associated with the gas supply cost and gas performance-based ratemaking adjustments (both made through the Gas Supply Clause) and FAC; both the Gas Supply Clause and the FAC are separate recovery mechanisms. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. LG&E currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include Mill Creek ash pond expenses, the merger surcredit and rate case expenses. Other regulatory liabilities include DSM, ARO and MISO administrative costs currently included in base rates.

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

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged LG&E's recovery of $0.5 million in aggregate fuel costs LG&E incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. Remaining proceedings in this matter, including further data requests and appropriate LG&E responsive filings, are continuing. A public hearing is scheduled in May 2007. A Kentucky Commission decision is expected during mid-2007.

Other Regulatory Matters

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

Market-Based Rate Authority. LG&E has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and LG&E's market-based rate authority is subject to such future developments. LG&E cannot predict the ultimate impact of the current or potential mitigation mechanisms on its future wholesale power sales.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

As part of the rate case settlement agreements, and as referred to in the EPAct 2005 administrative order, LG&E made its Responsive Pricing and Smart Metering Pilot Program filing, which addresses real-time pricing for residential and general service customers, in March 2007.

Gas Storage Field Matter. LG&E has commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field. The review relates, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions are required or advisable. During April 2007, LG&E reported to the FERC the existence of possible permitting failures and filed an application for corrective FERC authorizations. LG&E continues to coordinate with the FERC and relevant regulatory agencies in Kentucky and Indiana regarding this matter. LG&E believes that no sanctions are warranted but is unable to estimate the ultimate outcome of the matter, including whether the FERC might seek to impose any fines or penalties under the EPAct 2005 or otherwise.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million as of March 31, 2007 and December 31, 2006, respectively. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Bond Market Association's municipal swap index averaging 3.63% at March 31, 2007. The swap agreements in effect at March 31, 2007, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The cash flow designation was assigned because the underlying variable rate debt has variable future cash flows. The hedges have been deemed to be fully effective resulting in a pre-tax loss of less than $1 million for the three months ended March 31, 2007, recorded in other comprehensive income. Upon expiration of these hedges, the amount recorded in other comprehensive income will be reclassified into earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $11 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

Energy Trading and Risk Management Activities (non-hedging derivatives). LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes LG&E's energy trading and risk management activities for the three months ended March 31:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	-	1
Contracts realized or otherwise settled during the period	-	(2)
Changes in fair values due to changes in assumptions	(2)	1
Fair value of contracts at end of period, net (liability) asset	$ (1)	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

(in millions)	Pension Benefits 2007	Pension Benefits 2006	Other Postretirement Benefits 2007	Other Postretirement Benefits 2006
Service cost	$ 1	$ 1	$ -	$ -
Interest Cost	8	6	1	1
Expected return on plan assets	(11)	(7)	-	-
Amortization of prior service costs	2	1	1	1
Amortization of actuarial loss	1	1	-	-
Benefit cost year-to-date	$ 1	$ 2	$ 2	$ 2

Net periodic benefit costs incurred by employees of LG&E are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from other affiliates.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, LG&E made a discretionary contribution to the pension plan in the amount of $56 million, which was slightly more than the $52 million accrued benefit liability as of December 31, 2006. LG&E does not expect to make any further contributions to the pension plans in 2007. In the first quarter of 2007, LG&E made contributions to other postretirement benefit plans of approximately $1 million. LG&E anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including LG&E, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company, or its designee. LG&E also files income tax returns in various state jurisdictions. With few exceptions, LG&E is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. The 2003 and 2004 statutes are still open. The 2003 year has been reviewed by the IRS with no proposed changes. Tax years 2005 and 2006 are expected to be included, along with an upcoming federal audit of tax year 2007. The 2007 return will be examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends ninety days after the return is filed.

LG&E adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, LG&E had $7 million of unrecognized tax benefits, $5 million related to federal income taxes and $2 million related to state income taxes. If recognized, the entire $7 million of unrecognized tax benefits would affect the effective tax rate.

Included in the balance at March 31, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

LG&E, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, LG&E recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount LG&E recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2007 and December 31, 2006. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E upon adoption of FIN 48 or through March 31, 2007.

In June 2006, LG&E and KU filed a joint application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. LG&E's portion of the tax credit will be approximately $24 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In the first quarter of 2007, based on eligible construction expenditures incurred in 2007, LG&E recorded a federal investment tax credit, decreasing current federal income taxes by $3 million.

Note 6 - Short-Term and Long-Term Debt

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the three months ending March 31, 2007 was 3.63%.

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. There was no outstanding balance under any of these facilities at March 31, 2007. LG&E expects to renew these facilities prior to their expiration in June 2007.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2007	$400	$24	$376	5.26%
December 31, 2006	$400	$68	$332	5.25%

E.ON U.S. maintains a revolving credit facility totaling $150 million and $200 million at March 31, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2007	$150	$137	$13	5.63%
December 31, 2006	$200	$102	$98	5.49%

There were no redemptions or maturities of long-term debt year-to-date through March 31, 2007.

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

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

Dividends on the shares of preferred stock ceased to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million.

In April 2007, LG&E entered into two long-term borrowing arrangements with Fidelia in aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter.

In April 2007, LG&E completed a series of financial transactions impacting its periodic reporting requirements. The $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps.

As of April 27, 2007, LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934. See Note 10, Subsequent Events.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report on Form 10-K for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of LG&E contained therein). See the above-referenced notes in LG&E's Annual Report on Form 10-K for information regarding such commitments or contingencies.

Construction Program. LG&E had approximately $170 million of commitments in connection with its construction program at March 31, 2007.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's weighted-average company-wide emission rate for SO_2 in the first quarter of 2007 was 0.53 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District.

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2006 time period at a cost of $187 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E expects to incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E under its periodic environmental surcharge review mechanisms. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts will provide additional clarification of the authority of the EPA and the states. LG&E is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former Manufactured Gas Plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding GHG emissions from LG&E's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment for the three months ended March 31 follow:

(in millions)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
LG&E Electric		
Revenues	$ 222	$ 213
Net income	21	16
Total assets	2,570	2,444
LG&E Gas		
Revenues	153	200
Net income	11	10
Total assets	553	543
Total		
Revenues	375	413
Net income	32	26
Total assets	3,123	2,987

Note 9 - Related Party Transactions

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

Electric Purchases

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

(in millions)	2007	2006
Electric operating revenues from KU	$30	$22

Purchased power from KU	18	19

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2007	2006
Interest on money pool loans	$ 1	$ 1
Interest on Fidelia Corporation loans	3	3

Other Intercompany Billings

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

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services relate to information technology-related services provided by LG&E employees, cash received by E.ON U.S. Services on behalf of LG&E and services provided by LG&E to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from LG&E for the three months ended March 31 were as follows:

(in millions)	2007	2006
E.ON U.S. Services billings to LG&E	$123	$37
LG&E billings to KU	10	15
KU billings to LG&E	14	12
LG&E billings to E.ON U.S. Services	1	1

In April 2007, LG&E paid a dividend of $35 million to its common dividend shareholder, E.ON U.S. LLC.

Note 10 - Subsequent Events

On January 31, 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provide a source of funds for the possible redemption of LG&E's preferred stock. In March 2007, a committee of LG&E's board authorized the redemption of the preferred stock. On April 16, 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;

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

Dividends on the shares of preferred stock shall cease to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

On April 13, 2007, LG&E entered into two long-term borrowing arrangements with Fidelia in aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter.

On April 16, 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million.

On April 16, 2007, LG&E paid a dividend of $35 million to its common dividend shareholder, E.ON U.S. LLC.

On April 26, 2007, LG&E completed a series of financial transactions impacting its periodic reporting requirements. The $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps.

As of April 27, 2007, LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

SEC Form 10-Q – September 30, 2006

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-2893	Louisville Gas and Electric Company (A Kentucky Corporation) 220 West Main Street P. O. Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (A Kentucky and Virginia Corporation) One Quality Street Lexington, Kentucky 40507-1428 (859) 255-2100	61-0247570

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the

Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer_____

Non-accelerated filer __X___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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:

Louisville Gas and Electric Company - 21,294,223 shares, without par value, as of October 31, 2006, all held by E.ON U.S. LLC

Kentucky Utilities Company - 37,817,878 shares, without par value, as of October 31, 2006, all held by E.ON U.S. LLC

This combined Form 10-Q is separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein related to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information related to the other registrants.

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Company	LG&E or KU, as applicable
Companies	LG&E and KU
DOE	Department of Energy
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FGD	Flue Gas Desulfurization

IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LIBOR	London Interbank Offer Rate
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NOx	Nitrogen Oxide
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG MWP	Revenue Sufficiency Guarantee Make Whole Payment
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO2	Sulfur Dioxide
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Part I. Financial Information - Item 1. Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income (Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	*2005*	*2006*	2005
OPERATING REVENUES:				
Electric	$269	$284	$704	$741
Gas	34	35	288	260
Total operating revenues	303	319	992	1,001
OPERATING EXPENSES:				
Fuel for electric generation	86	80	221	208
Power purchased	26	34	81	101
Gas supply expenses	19	20	219	192
Other operation and maintenance expenses	70	88	212	227
Depreciation and amortization	31	31	92	93
Total operating expenses	232	253	825	821

OPERATING INCOME	71	66	167	180
Other (income) - net	(2)	-	(1)	-
Interest expense (Note 3)	8	6	22	17
Interest expense to affiliated companies (Note 8)	3	3	9	9
INCOME BEFORE INCOME TAXES	62	57	137	154
Federal and state income taxes	22	15	47	50
NET INCOME	$40	$42	$90	$104

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

Statements of Retained Earnings (Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance at beginning of period	$609	$555	$621	$534
Net income	40	42	90	104
Subtotal	649	597	711	638
Cash dividends declared on stock:				
Cumulative preferred	-	-	2	2
Common	35	-	95	39
Subtotal	35	-	97	41
Balance at end of period	$614	$597	$614	$597

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

Louisville Gas and Electric Company
Balance Sheets

(Unaudited)
(Millions of $)

ASSETS	September 30, 2006	December 31, 2005
Current Assets:		
Cash and cash equivalents	$5	$7
Accounts receivable - less reserves of $1 million as of September 30, 2006 and December 31, 2005	111	231
Accounts receivable from affiliated companies (Note 8)	26	36
Materials and supplies:		
Fuel (predominantly coal)	43	39
Gas stored underground	87	125
Other materials and supplies	29	28
Prepayments and other current assets	8	6
Total current assets	309	472
Utility plant:		
At original cost	4,108	4,049
Less: reserve for depreciation	1,541	1,509
Net utility plant	2,567	2,540
Deferred debits and other assets:		
Restricted cash	9	10
Unamortized debt expense	8	8
Regulatory assets (Note 2)	93	84
Intangible pension asset	31	31
Other assets	-	1
Total deferred debits and other assets	141	134
Total assets	$3,017	$3,146

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$248	$248
Notes payable to affiliated companies (Note 5 and Note 8)	52	141
Accounts payable	86	141
Accounts payable to affiliated companies (Note 8)	43	52
Accrued income taxes	8	6

Customer deposits	18	17
Other current liabilities	29	15
Total current liabilities	484	620
Long-term debt:		
Long-term debt (Note 5)	328	328
Long-term debt to affiliated company (Note 5 and Note 8)	225	225
Mandatorily redeemable preferred stock	19	20
Total long-term debt	572	573
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	315	322
Investment tax credit, in process of amortization	39	42
Accumulated provision for pensions and related benefits	131	143
Customer advances for construction	10	10
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	230	219
Regulatory liability deferred income taxes	47	42
Other regulatory liabilities	41	20
Other liabilities	28	31
Total deferred credits and other liabilities	869	856
Cumulative preferred stock	70	70
Common equity:		
Common stock, without par value - Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(56)	(58)
Retained earnings	614	621
Total common equity	1,022	1,027
Total liabilities and equity	$3,017	$3,146

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 90	$104
Items not requiring cash currently:		
Depreciation and amortization	92	93

Deferred income taxes	(3)	(8)
VDT amortization	7	23
Other	(3)	(4)
Changes in current assets and liabilities:		
Accounts receivable	120	68
Accounts receivable from affiliated companies	10	(32)
Fuel	(4)	(7)
Gas stored underground	38	(29)
Other changes in current assets	(3)	(13)
Accounts payable	(55)	1
Accounts payable to affiliated companies	(9)	26
Accrued income taxes	2	(6)
Other changes in current liabilities	15	(16)
Pension funding (Note 4)	(18)	-
Gas supply clause receivable, net	32	(3)
MISO exit	(13)	-
Other	(10)	(8)
Net cash provided by operating activities	288	189
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(104)	(95)
Change in restricted cash	1	(1)
Net cash used for investing activities	(103)	(96)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	-	39
Retirement of long-term debt	(1)	(40)
Repayment of long-term borrowings from affiliated company (Note 8)	-	(50)
Repayment of short-term borrowings from affiliated company (Note 5)	(89)	(2)
Payment of dividends	(97)	(41)
Net cash used for financing activities	(187)	(94)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$6

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2006	2005	2006	2005
Net income	$40	$42	$90	$104
Income Taxes - Minimum Pension Liability	-	-	-	(1)
Gain (loss) on derivative instruments and hedging activities - net of tax benefit (expense) of $4 million, $(3) million, $(1) million and $1 million, respectively (Note 4)	(6)	5	2	(1)
Comprehensive income (loss), net of tax	(6)	5	2	(2)
Comprehensive income	$34	$47	$92	$102

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

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
OPERATING REVENUES	$342	$347	$911	$899
OPERATING EXPENSES:				
Fuel for electric generation	130	119	325	290
Power purchased	49	65	140	161
Other operation and maintenance expenses	63	80	195	207
Depreciation and amortization	29	28	86	86
Total operating expenses	271	292	746	744
OPERATING INCOME	71	55	165	155

Other (income) - net	(13)	(2)	(26)	(5)
Interest expense (Note 3)	4	3	11	10
Interest expense to affiliated companies (Note 5 and Note 8)	6	4	17	12
INCOME BEFORE INCOME TAXES	74	50	163	138
Federal and state income taxes	25	18	54	51
NET INCOME	$49	$32	$109	$87

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance at beginning of period	$778	$674	$718	$660
Net income	49	32	109	87
Subtotal	827	706	827	747
Cash dividends declared on stock:				
Cumulative preferred	-	1	-	2
Common	-	10	-	50
Subtotal	-	11	-	52
Balance at end of period	$827	$695	$827	$695

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)

(Millions of $)

ASSETS	September 30, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents	$5	$7
Restricted cash	15	22
Accounts receivable - less reserves of $2 million as of September 30, 2006 and December 31, 2005	118	135
Accounts receivable from affiliated companies (Note 8)	14	32
Materials and supplies:		
Fuel (predominantly coal)	59	55
Other materials and supplies	35	32
Prepayments and other current assets	8	5
Total current assets	254	288
Other property and investments - less reserves of less than $1 million as of September 30, 2006 and December 31, 2005	24	23
Utility plant:		
At original cost	4,057	3,847
Less: reserve for depreciation	1,552	1,508
Net utility plant	2,505	2,339
Deferred debits and other assets:		
Unamortized debt expense	6	5
Regulatory assets (Note 2)	101	58
Cash surrender value of key man life insurance	34	32
Intangible pension asset	8	8
Other assets	-	3
Total deferred debits and other assets	149	106
Total assets	$2,932	$2,756

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$140	$123
Notes payable to affiliated companies (Note 5 and Note 8)	59	70
Accounts payable	91	89

Accounts payable to affiliated companies (Note 8)	76	53
Accrued income taxes	-	13
Customer deposits	18	17
Other current liabilities	30	18
Total current liabilities	414	383
Long-term debt:		
Long-term debt (Note 5)	203	240
Long-term debt to affiliated company (Note 5 and Note 8)	433	383
Total long-term debt	636	623
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	279	274
Accumulated provision for pensions and related benefits	101	92
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	294	281
Regulatory liability deferred income taxes	19	23
Other regulatory liabilities	11	11
Other liabilities	19	20
Total deferred credits and other liabilities	751	728
Common equity:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	15	15
Accumulated comprehensive loss	(19)	(19)
Retained earnings	812	704
Undistributed subsidiary earnings	15	14
Total retained earnings	827	718
Total common equity	1,131	1,022
Total liabilities and equity	$2,932	$2,756

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

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

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$109	$87
Items not requiring cash currently:		
Depreciation and amortization	86	86

Deferred income taxes	1	6
VDT amortization	3	9
Other	10	(3)
Changes in current assets and liabilities:		
Accounts receivable	17	22
Accounts receivable from affiliated companies	18	(29)
Fuel	(4)	2
Other changes in current assets	(6)	(4)
Accounts payable	2	(10)
Accounts payable to affiliated companies	23	25
Accrued income taxes	(13)	(6)
Other changes in current liabilities	13	(13)
Fuel adjustment clause receivable, net	(24)	(18)
MISO exit	(20)	-
Other	(7)	4
Net cash provided by operating activities	208	158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(236)	(77)
Change in restricted cash	7	(13)
Net cash used for investing activities	(229)	(90)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 5)	(36)	(50)
Issuance of pollution control bonds	16	14
Long-term borrowings from affiliated company (Note 5)	50	50
Repayment of short-term borrowings from affiliated company (Note 5)	(11)	(3)
Repayment of other borrowings	-	(27)
Payment of dividends	-	(52)
Net cash used for financing activities	19	(68)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$4

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005

Net income	$49	$32	$109	$87
Comprehensive income, net of tax	-	-	-	-
Comprehensive income	$49	$32	$109	$87

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

Louisville Gas and Electric Company
Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

1. General

The unaudited financial statements include the accounts of the Companies. The common stock of each Company is wholly-owned by E.ON U.S. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Companies believe that the disclosures are adequate to make the information presented not misleading.

See the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005, for information relevant to the accompanying financial statements, including information as to the significant accounting policies of the Companies.

KU INVESTMENT IN EEI

Other property and investments on the KU balance sheet consists largely of KU's investment in EEI, which was $17 million at September 30, 2006 and $16 million at December 31, 2005. KU owns 20% of the common stock of EEI, which owns and operates a 1,000-Mw generating station in southern Illinois. Prior to 2006, KU was entitled to take 20% of the available capacity of the station under a pricing formula comparable to the cost of other power generated by KU. This contract governing the purchases from EEI terminated on December 31, 2005. Subsequent to December 31, 2005, EEI has sold power under general market-based pricing and terms, generating increases in EEI earnings in 2006.

KU's investment in EEI is accounted for under the equity method of accounting and, accordingly, as EEI earnings have increased significantly in 2006, KU's equity in EEI earnings has also increased and is recorded in other income on the income statement. For the three and nine months ended September 30, 2006, KU's equity in EEI earnings was $9 million and $22 million, respectively, as compared with less than $1 million and $2 million, respectively, for the comparable periods in 2005.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. The Companies are now analyzing the future impacts of FIN 48 on results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 is effective for fiscal years ending after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Companies are now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities, and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E and KU. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amends SFAS No. 87, Employers' Accounting for Pensions, SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, SFAS No. 106, Employers' Accounting for

Postretirement Benefits Other than Pensions and SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. The Companies are now analyzing the future impacts of SFAS No. 158 on results of operations and financial condition.

2. Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities for the Companies, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 3 of the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of September 30, 2006 and December 31, 2005:

Louisville Gas and Electric Company
(Unaudited)

(in millions)	September 30, 2006	December 31, 2005
ARO	$23	$20
Unamortized loss on bonds	20	21
Gas supply adjustments	18	29
MISO exit	13	-
FAC	10	-
ECR	5	2
VDT	-	7
Other	4	5
Total regulatory assets	$93	$84
Accumulated cost of removal of utility plant	$230	$219
Deferred income taxes - net	47	42
Gas supply adjustments	38	17
Other	3	3
Total regulatory liabilities	$318	$281

In addition to generally earning applicable returns on approved assets, LG&E currently earns a return on all regulatory assets, excluding the ARO regulatory assets, gas supply adjustments, MISO exit and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The gas supply adjustments and the FAC have separate recovery mechanisms with recovery within twelve months. The MISO exit amount represents the fee accrued at September 30, 2006 to record the applicable costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. See Note 9, Subsequent

Events.

The increase in the gas supply adjustments net liability for the nine months ended September 30, 2006 reflects over-recovery of gas supply costs, which are in the process of being refunded to customers. The increase in FAC for the nine months ended September 30, 2006 is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the nine months ended September 30, 2006 is due to the completion of the amortization of the VDT in the first quarter of 2006.

The following regulatory assets and liabilities were included in KU's Balance Sheets as of September 30, 2006 and December 31, 2005:

Kentucky Utilities Company
(Unaudited)

(in millions)	September 30, 2006	December 31, 2005
ARO	$22	$20
Unamortized loss on bonds	11	11
MISO exit	20	-
FAC	36	12
ECR	6	4
VDT	-	3
Other	6	8
Total regulatory assets	$101	$58
Accumulated cost of removal of utility plant	$294	$281
Deferred income taxes - net	19	23
Other	11	11
Total regulatory liabilities	$324	$315

In addition to generally earning applicable returns on approved assets, KU currently earns a return on all regulatory assets, excluding the ARO regulatory assets, MISO exit and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The FAC has a separate recovery mechanism with recovery within twelve months. The MISO exit amount represents the fee accrued at September 30, 2006 to record the applicable costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky Commission. See Note 9, Subsequent Events.

The increase in FAC for the nine months ended September 30, 2006 is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the nine months ended September 30, 2006 is due to the completion of the amortization of the VDT in the first quarter of 2006.

ELECTRIC AND GAS RATE CASES

On June 30, 2004, the Kentucky Commission issued an order approving an increase in the base electric rates of the Companies and the natural gas rates of LG&E. The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of the Companies, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between the Companies and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission agreed to hold in abeyance further proceedings in the rate case, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by the Companies in their conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate case. To date, the Companies have neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an order noting completion of its inquiry, including review of the AG's investigative report. The order concluded that no improper communications occurred during the rate proceeding. The order further established a procedural schedule through the first quarter of 2006 for considering the sole issue for which rehearing was granted: state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an order resolving this issue in the Companies' favor consistent with the original rate increase order.

The Companies believe no improprieties have occurred in their communications with the Kentucky Commission and have cooperated in the proceedings before the AG and the Kentucky Commission. The Companies are currently unable to predict whether there will be any additional actions or consequences as a result of the AG's report and investigation.

MISO EXIT

Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E and KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since their exit from the MISO, the Companies have been operating under a FERC-approved open access-transmission tariff providing for a return on equity of 10.88%. The Companies have further contracted with the Tennessee Valley Authority to act as their Reliability Coordinator and Southwest Power Pool, Inc. to function as the Companies' Independent Transmission Operator, pursuant to FERC requirements, with respect to transmission matters.

The Companies and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Companies following their withdrawal. In September 2006, the MISO submitted an initial invoice for approximately $33 million for the exit fee, which the Companies have allocated approximately $13 million to LG&E and $20 million to KU. The Companies and the MISO continue to discuss the specifics of the exit fee calculation. The outcome of these discussions and the eventual settlement of any disputed amount cannot be estimated at this time. Orders of the Kentucky Commission approving the Companies' exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO Schedule 10 charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in the Companies' next rate cases, however, the Companies historically have received approval to recover regulatory assets and liabilities.

See also Note 9, Subsequent Events.

FAC

On February 15, 2006, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $6 million in its fuel cost factor to reflect higher fuel costs incurred during 2005, and anticipated to be incurred in 2006. The Virginia Commission approved KU's request on April 5, 2006.

In July 2006, the Kentucky Commission initiated routine periodic reviews of the FAC for the Companies. The Kentucky Commission issued Orders for both Companies on November 8, 2006, approving the charges and credits billed through the FAC during the review period.

ECR

In June 2006, the Companies filed applications to amend their ECR plans with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Companies' generating facilities. The estimated capital cost of the upgrades for the years 2006 through 2008 is approximately $324 million ($48 million for LG&E and $276 million for KU), of which $226 million is for the Air Quality Control System at Trimble County Unit 2 ($43 million for LG&E and $183 million for KU) and $95 million is for KU's Ghent Unit 2 Selective Catalytic Reduction. The estimated total capital cost of the upgrades is $364 million. A final order is expected to be issued by the end of 2006.

In April 2006, the Kentucky Commission initiated routine periodic reviews of the ECR mechanisms for the Companies. Hearings have been completed and the Kentucky Commission's Order is expected before year-end.

In December 2004, the Companies filed applications with the Kentucky Commission for approval of a CCN to construct new SO2 control technology (FGDs) at KU's Ghent and Brown stations, and to amend LG&E's compliance plan to allow recovery of new and additional environmental compliance facilities. The estimated capital cost of the additional facilities for 2006 through 2008 is approximately $840 million ($40 million for LG&E and $800 million for KU), of which $680 million is for the KU FGDs at Brown and Ghent. Hearings in these cases occurred during May 2005 and final orders were issued in June 2005, granting approval of the CCN and amendments to the Companies' compliance plans. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. See also Note 9, Subsequent Events.

VDT

In December 2001, the Companies received an order from the Kentucky Commission permitting them to set up regulatory assets for workforce reduction costs (VDT costs) and begin amortizing them over a five-year period beginning in April 2001. The order also reduced revenues through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to the Companies) of the stipulated savings, net of amortization costs, of the workforce reduction. The five-year VDT amortization period ended March 31, 2006.

On February 27, 2006, the AG, Kentucky Industrial Utility Consumers, Inc. and the Companies reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E or KU file for a change in electric or natural gas base rates. The Kentucky Commission issued an order on March 24, 2006, approving the settlement agreement.

MARKET-BASED RATE AUTHORITY

Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with the Companies' tri-annual market-based rate tariff renewals, the FERC continued to contend that the Companies failed such market screens in certain regions. The Companies disputed this contention and, in January 2006, in an attempt to resolve the matter, the Companies submitted proposed tariff schedules to the FERC containing a mitigation mechanism with respect to applicable power sales into the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky, where Western Kentucky Energy Corp., an affiliate of the Companies, maintains a long-term contractual relationship with BREC. Under the proposed tariff schedule, prices for such sales would be capped at a relevant MISO power pool index price. Upon the Companies' exit from the MISO, the FERC contended that they would have market power in their own joint control area, potentially requiring a similar mitigation mechanism for power sales into such region. In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Companies received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and the Companies' market-based rate authority is subject to such future developments.

Additionally, recent FERC decisions in certain other market-based rate proceedings have proposed or required cost-based, rather than market index, price caps. The Companies cannot predict the ultimate impact of the current or potential mitigation mechanisms on their future wholesale power sales.

EPAct 2005

The EPAct 2005 was enacted on August 8, 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives (see Note 6); repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC remains in various stages of rulemaking on these issues and the Companies are monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. The Companies continue to evaluate the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any uncompleted rulemakings, will have on their operations or financial position.

3. Financial Instruments

INTEREST RATE SWAPS (hedging derivatives)

The Companies use over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

As of September 30, 2006, LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Bond Market Association's municipal swap index averaging 3.67% at September 30, 2006. The swap agreements in effect at September 30, 2006, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The hedges have been deemed to be fully effective resulting in a pretax gain of $3 million for the nine months ended September 30, 2006, recorded in comprehensive income. Upon expiration of these hedges, the amount recorded in comprehensive income will be reclassified into earnings. The amounts expected to be reclassified from comprehensive income to earnings in the next twelve months are immaterial. A deposit in the amount of $9 million, used as collateral for the $83 million interest rate swap, is classified as restricted cash on LG&E's Balance Sheet. The amount of the deposit required is tied to the market value of the swap.

As of September 30, 2006, KU was party to an interest rate swap agreement with a notional amount of $53 million. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.48%, and received fixed rates averaging 7.92% at September 30, 2006. The swap agreement in effect at September 30, 2006 has been designated as a fair value hedge and matures in 2007. At September 30, 2006, the effect of marking this financial instrument and the underlying debt to market resulted in pretax gains recorded in interest expense of less than $1 million.

Interest rate swaps hedge interest rate risk on the underlying debt. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, in addition to swaps being marked to market, the item being hedged using a fair value hedge must also be marked to market. Consequently at September 30, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

At September 30, 2006, the Companies' percentage of debt having a variable rate, including the impact of interest rate swaps, was 48% ($415 million) for LG&E and 48% ($401 million) for KU.

ENERGY TRADING AND RISK MANAGEMENT CONTRACTS (non-hedging derivatives)

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The mark-to-market adjustment as of September 30, 2006 generated an increase in other income for each Company of approximately $2 million during the third quarter of 2006.

The fair values of the Companies' energy trading and risk management contracts as of September 30, 2006 were each approximately $4 million, recorded in other assets on the balance sheets of each Company. The fair values at September 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. All contracts outstanding at September 30, 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

4. Pension and Other Post-retirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
(in millions)	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU

Pension and Other Benefit Plans Components of net period benefit cost								
Service cost	$2	$2	$1	$2	$5	$6	$4	$6
Interest cost	6	5	5	6	17	13	17	14
Expected return on plan assets	(6)	(4)	(5)	(5)	(16)	(12)	(16)	(13)
Amortization of prior service cost	1	1	1	-	3	2	4	1
Recognized actuarial loss	1	1	1	1	3	3	2	2
Total net period benefit cost	$4	$5	$3	$4	$12	$12	$11	$10

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

5. Short-Term and Long-Term Debt

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, and KU's variable-rate pollution control bonds Series 10, 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the nine months ending September 30, 2006 was 3.47% for LG&E and 3.50% for KU.

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. There was no outstanding balance under any of these facilities at September 30, 2006. LG&E expects to renew these facilities prior to their expiration in June 2007.

LG&E, KU and E.ON U.S. participate in an intercompany money pool agreement. Details of the balances at September 30, 2006 and December 31, 2005 were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2006:				
LG&E	$400	$ 52	$348	5.27%
KU	$400	$ 59	$341	5.27%

December 31, 2005:				
LG&E	$400	$ 141	$259	4.21%
KU	$400	$ 70	$330	4.21%

E.ON U.S. maintains a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance outstanding on this facility at September 30, 2006, was $52 million.

Redemptions and maturities of long-term debt year-to-date through September 30, 2006, are summarized below:

Year	Company	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2006	LG&E	Mand. Red. Pref. Stock	$1	5.875%	Unsecured	Jul 2006
2006	KU	First mortgage bonds	$36	5.99%	Secured	Jan 2006

Issuances of long-term debt year-to-date through September 30, 2006, are summarized below:

Year	Company	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2006	KU	Fidelia note	$50	6.33%	Unsecured	Jun 2036
2006	KU	Pollution control bonds	$17	Variable	Secured	Jun 2036

6. Commitments and Contingencies

Except as may be discussed in this Quarterly Report on Form 10-Q (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Companies' Annual Report on Form 10-K for the year ended December 31, 2005 (including in Notes 3 and 10 to the financial statements of the Companies contained therein) and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 (including in Notes 2 and 6 to the financial statements contained therein). See the above-referenced notes in the Companies' Annual Report on Form 10-K and Quarterly Reports on Form 10-Q for information regarding such commitments or contingencies.

TRIMBLE COUNTY UNIT 2

In June 2006, the Companies, as 75% owners, entered into and delivered notice to proceed under an engineering, procurement and construction agreement with Bechtel Power Corporation ("Bechtel"), regarding construction of Trimble County Unit 2, valued at approximately $1.1 billion. IMEA and IMPA, as 25% owners, are also parties to the contract. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In general, termination by the owners for convenience or by the contractor due to owners' default will limit payment obligations to payment for work or incentives performed or earned to date and termination by owners due to contractor's default will similarly limit payment obligations, subject however to owners' rights with respect to cover damages and to certain collateral provided. In connection with this matter, the Companies dismissed their litigation against Bechtel regarding the contract previously commenced in April 2006 in United States District Court for the Western District of Kentucky.

In June 2006, the Companies filed an application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of Trimble County Unit 2. The EPAct 2005 added a new 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. The application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying Trimble County Unit 2 expenditures. In September and October 2006, the Companies submitted a follow-on application and additionally requested information to the IRS. IRS action on such applications would also be expected to occur during the fourth quarter of 2006. To the extent the Companies' application is ultimately accepted by the IRS, federal income tax credits may be claimed on eligible expenditures, as incurred.

LOUISVILLE DOWNTOWN ARENA

In August 2006, LG&E and the Louisville Arena Authority, Inc., a non-profit corporation (the "Authority") entered into a non-binding Memorandum of Understanding ("MOU") to transfer certain property and relocate certain LG&E facilities so that an LG&E-owned site, in part, could be used for the development and construction of a new multi-purpose arena in Louisville, Kentucky. The MOU contemplates the parties working in good faith toward completing definitive documents regarding the arena transaction. The MOU notes that the cost of relocating the LG&E facilities will be approximately $63 million and commits that the Authority arrange for the provision of state funds necessary for the relocation, as well as up to $10 million in state funds for the purchase of the property at fair market value. Assuming completion of definitive documents, the transfer of the property to the Authority is anticipated to occur before the end of 2008. In September 2006, the Kentucky Commission approved LG&E's application for authority to transfer applicable property as part of the arena transaction. In November 2006, the parties completed definitive documents relating to the arena transactions. See also Note 9, Subsequent Events.

OMU LITIGATION

In May 2004, the City of Owensboro, Kentucky and Owensboro Municipal Utilities (collectively "OMU") commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks approximately $6 million in damages for periods prior to 2004 and OMU is expected to claim further amounts for later-occurring periods. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction over the matter. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time the district court case is in the discovery stage and currently a trial date of January 2008 has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

ENVIRONMENTAL MATTERS

In April 2006, the EPA issued a notice of violation for alleged violations of the Clean Air Act involving work performed on Unit 3 of KU's E.W. Brown Station in 1997. The EPA alleges modification of a source without a permit, failure to comply with requirements under the Prevention of Significant Deterioration ("PSD") program, operation of a source in violation of the New Source Performance Standards ("NSPS"), and failure to identify the applicability of PSD and NSPS requirements in compliance certifications. Violations, if ultimately found, could result in additional expenditures on pollution controls or civil penalties. KU has responded to certain data requests of the EPA and held initial discussions with the EPA regarding this matter. Due to the early stage of this matter, KU is unable to determine its ultimate potential impact.

The Companies are subject to SO2 and NOx emission limits on their electric generating units pursuant to the Clean Air Act. The Companies placed into operation significant NOx controls for their generating units prior to the 2004 summer ozone season. As of September 30, 2006, LG&E and KU have incurred total capital costs of approximately $187 million and $215 million, respectively, to reduce their NOx emissions to required levels. In addition, the Companies incur additional operating and maintenance costs in operating the new NOx controls. On March 10, 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. On March 15, 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in

2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and the CAMR establish a cap and trade framework, in which a limit is set on total emissions and allowances can be bought or sold on the open market to be used for compliance, unless the state chooses another approach. LG&E currently has FGDs on all its coal-fired units, but will continue to evaluate improvements to further reduce SO2 emissions.

In order to meet these new regulatory requirements, KU has implemented a plan for adding significant additional SO2 controls to its generating units. Installation of additional SO2 controls will proceed on a phased basis, with construction of controls (i.e., FGDs) having commenced in September 2005 and continuing through the final installation and operation in 2009. KU estimates that it will incur $809 million in capital costs related to the construction of the FGDs to achieve compliance with current emission limits on a company-wide basis. Of this amount, $126 million has been incurred through September 30, 2006. In addition, KU will incur additional operating and maintenance costs in operating the new SO2 controls.

The Companies are also monitoring several other air quality issues which may potentially impact coal-fired power plants, including the EPA's revised air quality standards for ozone and particulate matter and measures to implement the EPA's Clean Air Visibility Rule.

During 2006, the EPA and state environmental authorities agreed to a tentative general settlement with KU and other parties regarding recovery of remediation and other costs relating to the former Tindall transformer scrap yard. KU's share of such overall settlement is less than $1 million. The tentative settlement remains subject to certain actions at the EPA and state levels, including completion of certain public notice and comment procedures, following which actions final regulatory approvals can commence.

In the normal course of business, lawsuits, claims, environmental actions and various non-ratemaking governmental proceedings arise against the Companies. To the extent that damages are assessed in any lawsuits relating to the above, the Companies believe that their insurance coverage or other appropriate reserves are adequate. Management, after consultation with legal counsel, and based upon the present status of these items, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims of the type referenced above will have a material adverse effect on the Companies' financial position or results of operations.

EMPLOYEES AND LABOR RELATIONS

Effective August 1, 2006, KU and its employees represented by IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers.

PENSION LEGISLATION

The Pension Protection Act of 2006 was enacted in August 2006. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Companies are currently examining the potential impacts of the Pension Protection Act of 2006.

7. Segments of Business

LG&E's revenues, net income and total assets by business segment for the three and nine months ended September 30, 2006 and 2005, follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2006	2005	2006	2005
LG&E Electric				
Revenues	$269	$284	$704	$741
Net income	43	45	86	99
Total assets	2,454	2,416	2,454	2,416
LG&E Gas				
Revenues	34	35	288	260
Net income	(3)	(3)	4	5

Total assets	563	551	563	551
Total				
Revenues	303	319	992	1,001
Net income	40	42	90	104
Total assets	3,017	2,967	3,017	2,967

KU is an electric utility company. It does not provide natural gas service and, therefore, is presented as a single business segment.

8. Related Party Transactions

LG&E, KU, subsidiaries of E.ON U.S., and other subsidiaries of E.ON engage in related-party transactions. These transactions are generally performed at cost and in accordance with applicable FERC, Kentucky Commission and Virginia Commission regulations. The significant related-party transactions are disclosed below.

ELECTRIC PURCHASES

The Companies' intercompany electric revenues and purchased power expense from affiliated companies for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	2006		2005		2006		2005	
	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU
Electric operating revenues from KU	$23	-	$15	-	$67	-	$62	-
Electric operating revenues from LG&E	-	17	-	16	-	52	-	65
Purchased power from KU	17	-	16	-	52	-	65	-
Purchased power from LG&E	-	23	-	15	-	67	-	62

INTEREST CHARGES

The Companies' intercompany interest income and expense for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005

(in millions)	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU
Interest on money pool loans	$-	$1	$-	$-	$1	$2	$1	$1
Interest on Fidelia loans	3	5	3	4	8	15	8	11

OTHER INTERCOMPANY BILLINGS

Other intercompany billings related to the Companies for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2006	2005	2006	2005
E.ON U.S. Services billings to LG&E	$57	$53	$162	$161
E.ON U.S. Services billings to KU	99	44	221	146
LG&E billings to E.ON U.S. Services	1	1	4	6
KU billings to E.ON U.S. Services	1	-	3	4
LG&E billings to KU	21	55	31	83
KU billings to LG&E	14	8	29	21

9. Subsequent Events

In October 2006, the Companies paid approximately $33 million to the MISO pursuant to a revised MISO invoice regarding the exit fee and made related FERC compliance filings. The Companies' payment of this exit fee amount was with reservation of their rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation.

In October 2006, E.ON U.S., LG&E and KU announced plans to provide up to $25 million over a period of up to twelve years to the FutureGen Industrial Alliance, Inc. ("FutureGen"), a non-profit consortium. FutureGen will conduct research, development and demonstration activities relating to advanced coal technologies, including proposed construction of the world's first coal-fired, "near zero emissions" power plant. Among the members of FutureGen are companies with interests in coal-fired electric power generation or coal production.

FutureGen has signed an initial cooperative agreement with the DOE and expects to sign a full-scope cooperative agreement in 2007. Beyond their initial aggregate membership amount of $0.3 million, E.ON U.S. and the Companies have rights at sequential future times to terminate participation prior to incurring the obligation to contribute the relevant remaining contribution amounts. The next estimated contribution will be in the amount of $0.8 million during the remainder of 2006.

In October 2006, KU entered into a $50 million long-term unsecured loan from Fidelia. The loan matures in October 2016, and has an interest rate of 5.675%.

In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGD's at the Ghent generating station. The proceeding requests additional information from KU regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. The inquiry focuses on KU's proposal to complete the project in a manner which would result in connecting the final new FGD to the generating unit currently served by an existing FGD and reconnecting such existing FGD to the final remaining generating unit. Pursuant to various Kentucky Commission approvals, KU has built and operated an FGD on one generating unit since the mid-1990's and is in varying stages of construction or pre-construction on FGD's for the remaining three generating units at its Ghent plant. KU is currently unable to predict the outcome and ultimate impact, if any, of the Kentucky Commission's proceeding.

In November 2006, the Kentucky Commission issued orders for both Companies regarding the routine periodic reviews approving the changes and credits billed through the FAC during the review period.

In November 2006, LG&E completed certain agreements pursuant to its August 2006 MOU with the Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement providing for the reimbursement by the Authority to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction, which costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress in the proposed arena transaction generally, the transactions contemplated by the contracts are anticipated to occur between 2006 and 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion and analysis by management focuses on those factors that had a material effect on the Companies' financial results of operations and financial condition during the three and nine month periods ended September 30, 2006, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Companies' reports to the SEC, including the Annual Reports on Form 10-K for the year ended December 31, 2005.

Executive Summary

LG&E and KU, subsidiaries of E.ON U.S. (indirect subsidiaries of E.ON), are regulated public utilities. At September 30, 2006, LG&E supplied electricity to approximately 397,000 customers and natural gas to approximately 322,000 customers in Louisville and adjacent areas in Kentucky. At September 30, 2006, KU provided electricity to approximately 499,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in southwestern Virginia and 5 customers in Tennessee. KU also sells wholesale electricity to 12 municipalities.

The mission of the Companies is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

The Companies' strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

In a June 2004 order, the Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by the Companies in December 2003. Under the ruling, the LG&E utility base electric rates have increased $43 million (7.7%) and base natural gas rates have increased $12 million (3.4%) annually. Base electric rates at KU have increased $46 million (6.8%) annually. The rate increases took effect on July 1, 2004. The 2004 increases were the first increases in electric base rates for the Companies in 13 and 20 years, respectively; the previous natural gas rate increase for the LG&E gas utility took effect in September 2000.

The Companies have begun construction of another base-load coal-fired unit at the Trimble County site. The Companies believe this is the least cost alternative to meet the future needs of customers. Trimble County Unit 2, with a 750 Mw capacity rating, is expected to be jointly owned by the Companies (75% owners of the unit) and the IMEA and IMPA (25% owners). Trimble County Unit 2 is expected to cost $1.1 billion and be completed by 2010. The Companies' aggregate 75% share of the total Trimble County Unit 2 capital cost is approximately $879 million and is estimated to be

approximately $151 million for LG&E and $601 million for KU through 2008.
Through September 2006, expenditures for Trimble County Unit 2 have been $18 million for LG&E and $66 million for KU. In June 2006, the Companies entered into a construction contract regarding the Trimble County Unit 2 project. See Note 6 of the Notes to Financial Statements, in Part 1, Item 1, herein.

In November 2005, the Kentucky Commission approved the CCN construction application of the Companies to expand the Trimble County generating plant.
Kentucky Commission approvals for the related transmission line CCNs were granted in September 2005 and May 2006. In July 2006, certain property owners filed a motion for judicial appeal of the latter transmission line CCN ruling. A schedule for such proceeding has not been established. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club.
Administrative proceedings with respect to the challenge are expected to continue during 2006. A ruling thereafter may be anticipated in the first half of 2007.

In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E and KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and plan to submit procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organization and operational improvements as described above and are not expected to have a material adverse impact on the Companies' results of operations or financial condition.

Results of Operations

The results of operations for the Companies are affected by seasonal fluctuations in temperature and other weather-related factors. Because of these and other factors, the results of one interim period are not necessarily indicative of results or trends to be expected for the full year.

Three Months Ended September 30, 2006, Compared to
Three Months Ended September 30, 2005

LG&E Results:

LG&E's net income decreased $2 million (5%) for the three months ended September 30, 2006, as compared to the three months ended September 30, 2005, primarily due to lower retail sales volumes resulting from cooler weather than last year and a higher effective income tax rate this year, partially offset by lower MISO expenses and lower other operation expenses primarily from the completion of the VDT amortization earlier this year.

A comparison of LG&E's revenues for the three months ended September 30, 2006, with the three months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$3	$1
Environmental cost recovery surcharge	(1)	-
Merger surcredit	1	-
Variation in sales volume and other	(12)	(2)
Total retail sales	(9)	(1)
Wholesale sales	4	-
MISO Day 2 RSG MWP	(10)	-
Total	$(15)	$(1)

Electric revenues decreased $15 million (5%) primarily due to:

- Decreased sales volumes delivered ($12 million) resulting from a 16% decrease in cooling degree days in the third quarter of 2006 as compared to the same period in 2005
- Decreased MISO related revenue ($10 million) due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Increased fuel costs ($3 million) billed to customers through the fuel adjustment clause
- Increased wholesale sales ($4 million) largely due to 20% higher

volumes

Gas revenues for the quarter ending September 2006 as compared to the same
period last year were essentially flat with no significant variances.

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the
cost of fuel and natural gas supply are reflected in LG&E's electric and
natural gas retail rates, through the fuel adjustment clause and gas supply
clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $6 million (8%) in 2006 primarily
due to:
- Increased unit cost of fuel burned ($3 million) due to higher fuel prices
- Increased generation ($3 million) due to higher unit availability

Power purchased decreased $8 million (24%) in 2006 primarily due to:
- Decreased volumes purchased ($9 million) due to higher unit availability and lower retail sales volumes
- Increased unit cost of purchases ($1 million) due to higher market prices

Gas supply expenses decreased $1 million (5%) in 2006 primarily due to:
- Decreased unit cost of natural gas purchased ($3 million)
- Increased volumes delivered to the distribution system ($2 million)

Other operation and maintenance expenses decreased $18 million (20%) in 2006.
Other operation expenses decreased $23 million (34%) primarily due to:
- Decreased other power supply costs ($16 million) primarily due to lower MISO Day 2 expenses
- Decreased administrative and general expenses ($7 million) primarily due to completion of the VDT amortization

Maintenance expense increased $3 million (22%) primarily due to:
- Increased electric distribution maintenance ($2 million) primarily due to tree trimming
- Increased steam generation maintenance ($1 million) primarily related to Mill Creek Unit 4

Property and other taxes increased $1 million (30%)

Other income increased $2 million in 2006 primarily due to non-hedging derivative mark-to-market income.

Interest expense increased $2 million (33%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($2 million)

- Increased interest expense on tax deficiencies ($1 million)
- Decreased interest expense on the swaps ($1 million)

The weighted average interest rate on variable-rate bonds for the three months ended September 30, 2006, was 3.63%, compared to 2.54% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the three months ended September 30, 2006 and 2005 follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.0	3.7
Reduction of previous accruals	(0.6)	(9.0)
Amortization of investment tax credits	(1.6)	(1.8)
Other differences	(1.3)	(1.6)
Effective income tax rate	35.5%	26.3%

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of LG&E, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, LG&E released income tax reserves of $5.1 million in the third quarter of 2005. Further reductions of previous tax accruals were made in the third quarter of 2006 primarily due to the expiration of the statute of limitations for a prior year.

The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $17 million (53%) for the three months ended September 30, 2006, as compared to the three months ended September 30, 2005, primarily due to higher equity in earnings from EEI, lower MISO expenses and lower other operation expenses primarily from the completion of the VDT amortization earlier this year, partially offset by lower retail and wholesale sales volumes and increased interest expense.

A comparison of KU's revenues for the three months ended September 30, 2006, with the three months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$27
Environmental cost recovery surcharge	3
Merger surcredit	2
Variation in sales volumes and other	(13)
Total retail sales	19
Wholesale sales	(10)
MISO Day 2 RSG MWP	(14)
Total	$(5)

Electric revenues decreased $5 million (1%) in 2006 primarily due to:

- Decreased MISO related revenue ($14 million) due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Decreased sales volumes delivered ($13 million) resulting from a 21% decrease in cooling degree days in the third quarter of 2006, as compared to the same period in 2005
- Decreased wholesale revenues ($10 million) largely due to 37% lower volumes
- Increased fuel costs ($27 million) billed to customers through the fuel adjustment clause due to higher coal prices
- Increased environmental cost recovery ($3 million) billed to customers
- Increased merger surcredit revenues ($2 million)

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

Fuel for electric generation increased $11 million (9%) in 2006 primarily due to:

- Increased unit cost of fuel burned ($17 million) due to higher fuel prices
- Decreased generation ($6 million) due to lower sales volumes

Power purchased decreased $16 million (25%) in 2006 primarily due to:

- Decreased unit cost of purchases ($12 million) due to lower market prices

- Decreased volumes purchased ($4 million) due to higher unit availability and lower sales volumes

Other operation and maintenance expenses decreased $17 million (21%) in 2006.

Other operation expenses decreased $19 million (33%) primarily due to:

- Decreased other power supply costs ($15 million) primarily due to lower MISO Day 2 expenses
- Decreased administrative and general expenses ($3 million) primarily due to the completion of the VDT amortization
- Decreased transmission expense ($2 million) primarily due to lower MISO Day 1 expenses
- Increased steam generation operations expense ($1 million)

Property and other taxes increased $1 million (29%)

Other income - net increased $11 million primarily due to:

- Increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006 ($9 million)
- Increased non-hedging derivative mark-to-market income ($2 million)

Interest expense increased $1 million (33%) primarily due to higher interest rates on variable rate debt. The weighted average interest rate on variable-rate bonds for the three months ended September 30, 2006, was 3.63%, compared to 2.54% for the comparable period in 2005.

Interest expense to affiliated companies increased $2 million (50%) in 2006 primarily due to increased borrowing from Fidelia.

A comparison of the KU effective income tax rate for the three months ended September 30, 2006 and 2005 follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.5	4.6
Reduction of previous accruals	(0.3)	(8.9)
Amortization of investment tax credits	(0.4)	(0.9)
EEI dividend	(3.0)	-
EEI adjustment	-	6.3

Other differences	(2.0)	(0.1)
Effective income tax rate	33.8%	36.0%

The EEI dividend in the third quarter of 2006 reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. During the third quarter in 2005, KU recognized additional deferred tax expense ($3.1 million) related to the undistributed earnings in its EEI unconsolidated investment. An EEI management decision regarding changes in the distribution of EEI's previous earnings led to the decision to provide deferred income taxes for all book and tax basis differences in this investment.

The change in amortization of investment tax credits is largely attributable to the change in the levels of pre-tax income.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of KU, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, KU released income tax reserves of $4.4 million in the third quarter of 2005. Further reductions of previous tax accruals were made in the third quarter of 2006 primarily due to the expiration of the statute of limitations for a prior year.

Nine Months Ended September 30, 2006, Compared to
Nine Months Ended September 30, 2005

LG&E Results:

LG&E's net income decreased $14 million (13%) for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, primarily due to lower electric and gas retail and wholesale sales volumes resulting from milder weather this year, higher interest expense and a higher effective income tax rate, partially offset by lower other operations expenses primarily from the completion of the VDT amortization earlier this year and lower MISO expenses.

A comparison of LG&E's revenues for the nine months ended September 30, 2006, with the nine months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues

Retail sales:		
Fuel and gas supply adjustments	$18	$74
Merger surcredit	2	-
Environmental cost recovery	(1)	-
Value delivery surcredit	-	1
Weather normalization	-	2
Variation in sales volume and other	(19)	(34)
Total retail sales	-	43
Wholesale sales	(28)	(16)
MISO Day 2 RSG MWP	(7)	-
Other	(2)	1
Total	$(37)	$28

Electric revenues decreased $37 million (5%) in 2006 primarily due to:

- Decreased wholesale sales ($28 million) resulting from 16% lower volumes
- Decreased retail sales volumes and other ($19 million) resulting from a 12% decrease in cooling degree days as compared to the same period in 2005
- Decreased MISO related revenue ($7 million) largely due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Increased fuel costs ($18 million) billed to customers through the fuel adjustment clause due to higher costs of coal

Gas revenues increased $28 million (11%) in 2006 primarily due to:

- Increased gas supply costs ($74 million) billed to customers through the gas supply adjustment clause due to higher costs of natural gas
- Increased weather normalization revenues ($2 million) due to warmer weather
- Increased value delivery surcredit revenues ($1 million)
- Decreased sales volumes and other ($34 million) resulting from a 8% decrease in heating degree days as compared to the same period in 2005
- Decreased wholesale sales ($16 million) due to limited opportunities to sell off-system

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $13 million (6%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($17 million) due to higher fuel prices
- Decreased generation ($4 million) due to lower sales volumes

Power purchased decreased $20 million (20%) in 2006 primarily due to:
- Decreased volumes purchased ($30 million) due to higher unit availability and lower sales volumes
- Increased unit cost of purchases ($10 million) due to higher market prices

Gas supply expenses increased $27 million (14%) in 2006 primarily due to:
- Increased unit cost of natural gas purchased ($69 million)
- Decreased volumes delivered to the distribution system ($41 million)

Other operation and maintenance expenses decreased $15 million (7%) in 2006.

Other operation expenses decreased $25 million (15%) primarily due to:
- Decreased administrative and general expenses ($14 million) primarily due to the completion of the VDT amortization
- Decreased other power supply expenses ($6 million) primarily due to lower MISO Day 2 expenses
- Decreased transmission expenses ($6 million) primarily due to lower MISO expenses

Maintenance expenses increased $9 million (18%) primarily due to:
- Increased steam maintenance ($4 million) primarily related Mill Creek Unit 4
- Increased distribution maintenance ($4 million) primarily related to storm restoration
- Increased administrative and general maintenance ($2 million)

Property and other taxes increased $1 million (8%)

Interest expense increased $5 million (29%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($4 million)
- Increased interest on tax deficiencies ($3 million)
- Decreased interest expense on the swaps ($2 million)

The weighted average interest rate on variable-rate bonds for the nine months ended September 30, 2006, was 3.43%, compared to 2.36% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the nine months ended September 30, 2006 and 2005 follows:

	Nine Months	Nine Months

	Ended September 30, 2006	Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.8	4.3
Reduction of previous accruals	(0.3)	(3.4)
Amortization of investment tax credits	(2.2)	(2.0)
Other differences	(2.0)	(1.4)
Effective income tax rate	34.3%	32.5%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The change in amortization of investment tax credits is largely attributable to the change in the levels of pre-tax income.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of LG&E, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, LG&E released income tax reserves of $5.1 million in the third quarter of 2005. Further reductions of previous tax accruals were made in 2006 primarily due to the expiration of the statute of limitations for a prior year.

KU Results:

KU's net income increased $22 million (25%) for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, primarily due to higher equity in earnings from EEI, lower MISO expenses, lower other operation expenses primarily from the completion of the VDT amortization earlier this year and a lower effective income tax rate, partially offset by lower retail and wholesale sales volumes and increased interest expense.

A comparison of KU's revenues for the nine months ended September 30, 2006, with the nine months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$ 52
Environmental cost recovery surcharge	6
Merger surcredit	2
Rate and rate structure	2

Value delivery surcredit	1
Variation in sales volume and other	(8)
Total retail sales	55
Wholesale sales	(28)
MISO Day 2 RSG MWP	(4)
Other	(11)
Total	$ 12

Electric revenues increased $12 million (1%) in 2006 primarily due to:
- Increased fuel costs ($52 million) billed to customers through the fuel adjustment clause
- Increased environmental cost recovery surcharge ($6 million)
- Increased merger surcredit revenues ($2 million)
- Increased revenues from changes in Virginia rates and rate structure ($2 million)
- Decreased wholesale sales ($28 million) resulting from 51% lower volumes
- Decreased transmission revenue ($10 million) due to lower volumes
- Decreased retail sales volumes and other ($9 million) resulting from a 10% decrease in cooling degree days as compared to the same period in 2005
- Decreased MISO related revenues ($4 million) largely due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.

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

Fuel for electric generation increased $35 million (12%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($37 million) due to higher fuel prices
- Decreased generation ($2 million) due to decreased sales volumes

Power purchased decreased $21 million (13%) in 2006 primarily due to:
- Decreased volumes purchased ($24 million) due to higher unit availability and lower sales volumes
- Increased unit cost of purchases ($3 million) due to higher market prices

Other operation and maintenance expenses decreased $12 million (6%) in 2006.

Other operation expenses decreased $9 million (6%) primarily due to:
- Decreased other power supply expenses ($9 million) primarily due to

lower MISO Day 2 expenses
- Decreased administrative and general expenses ($3 million) primarily
due to the completion of the VDT amortization
- Increased transmission expenses ($2 million)
- Increased steam generation operation expense ($1 million)

Maintenance expenses decreased $3 million (6%) primarily due to:
- Decreased steam generation maintenance ($7 million) due to outages in
2005 at E.W. Brown, Ghent and Green River
- Increased administrative and general maintenance ($2 million)
- Increased combustion turbine maintenance ($1 million)
- Increased electric distribution maintenance ($1 million)

Property and other taxes increased $1 million (12%)

Other income - net increased $21 million primarily due to increased equity
in earnings from EEI as a result of EEI selling electricity at market based
rates, effective January 2006.

Interest expense increased $1 million (10%) in 2006 primarily due to:
- Increased cost of the interest rate swap ($2 million)
- Increased interest rates on variable rate debt ($2 million)
- Decreased interest due to replacing external debt with debt to affiliated companies ($3 million)

The weighted average interest rate on variable-rate bonds for the nine months ended September 30, 2006, was 3.32%, compared to 2.39% for the comparable period in 2005.

Interest expense to affiliated companies increased $5 million (42%) primarily due to:
- Increased borrowing from Fidelia ($4 million)
- Increased borrowing from the money pool ($1 million)

A comparison of the KU effective income tax rate for the nine months ended
September 30, 2006 and 2005 follows:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	4.7
Reduction of previous accruals	(0.1)	(3.2)
Amortization of investment tax credits	(0.5)	(0.9)
EEI dividend	(4.1)	-
EEI adjustment	-	2.3
Other differences	(1.6)	(0.9)
Effective income tax rate	33.1%	37.0%

The EEI dividend for the nine months ended September 30, 2006, reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. During the third quarter in 2005, KU recognized additional deferred tax expense ($3.1 million) related to the undistributed earnings in its EEI unconsolidated investment. Subsequent to an EEI management decision regarding changes in the distribution of EEI's previous earnings, KU has elected to record deferred income taxes for all book and tax basis differences in this investment.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and the indirect parent of KU, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, KU released income tax reserves of $4.4 million in the third quarter of 2005. Further reductions of previous tax accruals were made in 2006 primarily due to the expiration of the statute of limitations for a prior year.

Liquidity and Capital Resources

The Companies' needs for capital funds are largely related to the construction of plant and equipment necessary to meet the needs of electric and gas utility customers, in addition to debt service requirements and dividend payments. Internal and external lines of credit are maintained to fund short-term capital requirements. The Companies believe that such sources of funds will be sufficient to meet the needs of the business in the foreseeable future.

At September 30, 2006, the Companies were in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds that are subject to tender for purchase at the option of the holder as current portion of long-term debt. The Companies expect to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Construction expenditures for the nine months ended September 30, 2006 amounted to $104 million for LG&E and $236 million for KU. At LG&E, capital expenditures included Trimble County Unit 2, infrastructure for new customers, gas main replacements and capital repairs to Mill Creek Unit 4.

At KU, capital expenditures included Trimble County Unit 2, FGD's and other environmental equipment at the Brown and Ghent generating stations and infrastructure for new customers.

LG&E's cash balance decreased $2 million during the nine months ended September 30, 2006, largely resulting from the retirement of debt and the payment of dividends. KU's cash balance decreased $2 million during the nine months ended September 30, 2006, largely resulting from increasing construction expenditures.

Variations in accounts receivable, inventories and accounts payable are generally not significant indicators of the Companies' liquidity. Such variations are primarily attributable to seasonal fluctuations in weather, which have a direct effect on sales of electricity and natural gas. The decreases in LG&E's accounts receivable and natural gas stored underground relate primarily to seasonal uses of natural gas.

For information regarding the Companies' use of interest rate swaps to hedge underlying variable-rate (LG&E) and fixed-rate (KU) debt obligations, see Note 3 of the Notes to Financial Statements.

See Note 5 of the Notes to Financial Statements for information regarding the Companies' long-term and short-term debt including: accounting treatment of bonds permitting tender for purchase at the option of the holder, re-negotiation of revolving credit lines, intercompany debt transactions and the issuance and redemption of financial instruments during the year.

Security ratings as of September 30, 2006, were:

	LG&E		KU	
	Moody's	S&P	Moody's	S&P
First mortgage bonds	A1	A-	A1	A
Preferred stock	Baa1	BBB-	Baa1	BBB-
Commercial paper	P-1	A-2	P-1	A-2

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Contingencies

For a description of significant contingencies that may affect the

Companies, reference is made to Part I, Item 3, Legal Proceedings in the
Companies' Annual Reports on Form 10-K for the year ended December 31, 2005; to Part I - Item 1 and Part II - Item 1, Legal Proceedings in the Companies' Quarterly Reports on Form 10-Q for the periods ended March 31,
2006 and June 30, 2006; and to Notes 2 and 6 of the Notes to Financial Statements in Part I - Item 1, and Part II - Item 1, Legal Proceedings herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Companies use interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk and earnings volatility and is not speculative in nature. Management has designated all of the Companies' interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and
stockholders' equity. To the extent a financial instrument or the underlying item being hedged is prematurely terminated or the hedge becomes
ineffective, the resulting gains or losses are reclassified from comprehensive income to net income. Financial instruments designated as fair value hedges are periodically marked to market with the resulting gains and losses recorded directly into net income to correspond with income or expense recognized from changes in market value of the items being hedged.

The potential change in interest expense associated with a 1% change in base interest rates of the Companies' non-hedged variable debt is estimated
at $4 million each at September 30, 2006. The Companies' exposure to floating interest rates did not materially change during the first nine months of 2006.

The potential loss in fair value of LG&E's interest rate swaps resulting
from a hypothetical 1% change in base interest rates is estimated at approximately $18 million as of September 30, 2006. The potential loss in
fair value of KU's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at less than $1 million as of
September 30, 2006. These estimates are derived from third-party valuations. Changes in the market values of these swaps, if held to maturity, will have no effect on LG&E's or KU's net income or cash flow.

Pension Risk

The Companies' costs of providing defined-benefit pension retirement plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rate and contributions made to the plans. The Companies have recognized an additional minimum liability as prescribed by SFAS No. 87, Employers' Accounting for Pensions because the accumulated benefit obligation exceeds the fair value of their plans' assets. The liabilities were recorded as a reduction to comprehensive income, and did not affect net income. The amount of the liability depends upon the discount rate, the asset returns and contributions made by the Companies to the plans. If the fair value of the plans' assets exceeds the accumulated benefit obligation, the recorded liabilities will be reduced and comprehensive income will be restored in the balance sheet. See Note 1 of the Notes to Financial Statements in Item 1, Part 1 for a discussion of the new accounting pronouncement SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

A 1% increase or decrease in the assumed discount rate could have an approximate $49 million positive or negative impact to the accumulated benefit obligation of LG&E. A 1% increase or decrease in the assumed discount rate could have an approximate $33 million positive or negative impact to the accumulated benefit obligation of KU.

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Energy & Risk Management Activities

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Wholesale sales of excess asset capacity are treated as normal sales under SFAS No. 133, as amended, and are not marked to market.

The fair values of the Companies' energy trading and risk management contracts as of September 30, 2006 were each approximately $4 million. The fair values at September 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during all periods. The

outstanding mark-to-market value is sensitive to changes in prices, price
volatilities and interest rates. The Companies estimate that a movement in
prices of $1 and a change in interest and volatilities of 1% would result
in a change in the mark-to-market value of less than $1 million. All
contracts outstanding at September 30, 2006, have a maturity of less than
one year and are valued using prices actively quoted for proposed or
executed transactions or quoted by brokers.

The Companies maintain policies intended to minimize credit risk and
revalue credit exposures daily to monitor compliance with those policies.
As of September 30, 2006, 100% of the trading and risk management
commitments were with counterparties rated BBB-/Baa3 equivalent or better.

MISO Exit

For further discussions of certain market risks relating to the Companies'
withdrawal from MISO, see also Part II, Item 1A, *Risk Factors* in this
quarterly report and in the Companies' Annual Report on Form 10-K for the
year ended December 31, 2005.
Item 4. Controls and Procedures

The Companies maintain a system of disclosure controls and procedures
designed to ensure that information required to be disclosed by the
Companies in reports they file or submit under the Securities Exchange Act
of 1934 is recorded, processed, summarized and reported, within the time
periods specified in the Securities and Exchange Commission rules and
forms. The Companies conducted an evaluation of such controls and
procedures under the supervision and with the participation of the
Companies' management, including the Chairman, President and Chief
Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based
upon that evaluation, the CEO and CFO have concluded that the Companies'
disclosure controls and procedures are effective as of the end of the
period covered by this report.

The Companies are not accelerated filers under the Sarbanes-Oxley Act of
2002 and associated rules (the "Act") and consequently anticipate issuing
Management's Report on Internal Control over Financial Reporting pursuant
to Section 404 of the Act in their first periodic report covering the
fiscal year ended December 31, 2007 as permitted by SEC rulemaking.

In preparation for required reporting under Section 404 of the Act, the

Companies are conducting a thorough review of their internal controls over
financial reporting, including disclosure controls and procedures. Based on
this review, the Companies have made internal controls enhancements and
will continue to make future enhancements to their internal control over
financial reporting. There has been no change in the Companies' internal
control over financial reporting that occurred during the fiscal quarter
ended September 30, 2006, that has materially affected, or is reasonably
likely to materially affect, the Companies' internal control over financial
reporting.

Part II. Other Information

Item 1. Legal Proceedings.

For a description of the significant legal proceedings involving the
Companies, reference is made to the information under the following items
and captions of the Companies' respective combined Annual Report on Form 10-
K for the year ended December 31, 2005: Item 1, Business; Item 3, Legal
Proceedings; Item 7, Management's Discussion and Analysis of Financial
Condition and Results of Operations; and Item 8, Financial Statements and
Supplementary Data in Notes 3 and 10. Reference is also made to the matters
described in Notes 2 and 6 of Part 1, Item 1 of the Companies' Quarterly
Reports on Form 10-Q for the three months ended March 31, 2006 and June 30,
2006; and Notes 2 and 6 of the Notes to Financial Statements in Part I,
Item 1 of this 10-Q. Except as described herein, to date, the proceedings
reported in the Companies' respective combined Annual Report on Form 10-K
have not changed materially.

Other

In the normal course of business, other lawsuits, claims, environmental
actions, and other governmental proceedings arise against the Companies. To
the extent that damages are assessed in any of these lawsuits, the
Companies believe that their insurance coverage is adequate. Management,
after consultation with legal counsel, does not anticipate that liabilities
arising out of other currently pending or threatened lawsuits and claims

will have a material adverse effect on LG&E's or KU's financial position or results of operations, respectively.

Item 1A. Risk Factors.

MISO Exit

LG&E and KU withdrew from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. As required by the FERC, in connection with their exit, the Companies have engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. Such activities may have an effect on the Companies' abilities to access the transmission system for wholesale or native load power activities. The Companies will save certain MISO membership costs and charges, but will incur a MISO exit fee as well as fees related to the new transmission service vendors. The Companies believe that, over time, the benefits and savings from their exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

See Note 2 of LG&E's and KU's Notes to Financial Statements in Part I, Item 1 of this 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

2(c)

LG&E has an existing $5.875 series of mandatorily redeemable preferred stock outstanding having a current redemption price of $100 per share. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and a minimum of 187,500 shares on July 15, 2008 at $100 per share. LG&E redeemed 12,500 shares in accordance with these provisions on July 15, 2006, leaving 200,000 shares currently outstanding. Beginning with the three months ended September 30, 2003, LG&E reclassified, at fair value, its $5.875 series preferred stock as long-term debt with the minimum shares mandatorily redeemable within one year classified as current portion of long-term debt. Dividends accrued beginning July 1, 2003 are charged as interest expense, pursuant to SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

	July 2006	August 2006	September 2006
Total number of shares (or units) purchased	12,500 ($5.875 Pref.)	n/a	n/a
Average price paid per share (or unit)	$100	n/a	n/a
Total number of shares (or units) purchased as part of publicly announced plans or programs	12,500 ($5.875 Pref.)	n/a	n/a
Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs	200,000 ($5.875 Pref.)	n/a	n/a

Item 4. Submission of Matters to a Vote of Security Holders.

a)LG&E's and KU's Annual Meetings of Shareholders were held on July 20, 2006.

b)Not applicable.

c)The matters voted upon and the results of the voting at the Annual Meetings are set forth below:

1. LG&E

i)The shareholders voted to elect LG&E's nominees for election to the Board of Directors, as follows:

Victor A. Staffieri - 21,294,223 common shares and 596,501 preferred shares cast in favor of election and 7,687 preferred shares withheld.

S. Bradford Rives - 21,294,223 common shares and 595,801 preferred shares cast in favor of election and 8,387 preferred shares withheld.

John R. McCall - 21,294,223 common shares and 596,956 preferred shares cast in favor of election and 7,232 preferred shares withheld.

Paul W. Thompson - 21,294,223 common shares and 596,656 preferred shares cast in favor of election and 7,532 preferred shares withheld.

Chris Hermann - 21,294,223 common shares and 596,713 preferred shares cast in favor of election and 7,475 preferred shares withheld.

No holders of common or preferred shares abstained from voting on this matter.

ii) The shareholders voted 21,294,223 common shares and 599,991 preferred shares in favor of and 2,564 preferred shares against the approval of PricewaterhouseCoopers LLP as the Independent Registered Public Accounting Firm for 2006. Holders of 1,633 preferred shares abstained from voting on this matter.

2. KU

i) The sole shareholder voted to elect KU's nominees for election to the Board of Directors, as follows:

37,817,878 common shares cast in favor of election and no shares withheld for each of Victor A. Staffieri, S. Bradford Rives, John R. McCall, Paul W. Thompson, and Chris Hermann, respectively.

ii) The sole shareholder voted 37,817,878 common shares in favor of and no shares withheld for approval of PricewaterhouseCoopers LLP as the Independent Registered Public Accounting Firm for 2006.

No holders of common shares abstained from voting on these matters.

d) Not applicable.

Item 5. Other Information.

In October 2006, executive officers of LG&E and KU received initial grants of performance units under a new long-term variable compensation plan, the E.ON AG Share Performance Plan ("New Plan") established by E.ON during 2006. These grants, which have a maturity period of three years, commencing on January 1 of this year, are payable in cash after the end of the maturity period. The ultimate amount of compensation paid to the executives

is determined by the value E.ON AG share performance during the final 60
days of the period and the relative performance of E.ON AG stock's total
shareholder return ("TSR") against the TSR of a European utility stock index over the maturity period. Minimum E.ON AG performance against the index must be attained in order for a performance unit to have any value.
The maximum value of a performance unit granted under the New Plan is three
times the initial value of the performance unit, which initial value is set
at E.ON AG's average share price for the 60 trading days preceding the commencement of the three year period. The performance units are subject to
accelerated payment prior to their maturity date, using performance calculations to date, upon certain events of change-in-control. Additionally, acceleration of payment may occur in the event of death, disability or termination of employment of the executive officer by the Company for other than for cause. This description is qualified in its entirety by reference to the text of the New Plan and related documents,
copies of which are filed with this Form 10-Q as Exhibits 10.01 and 10.02,
respectively.

Item 6. Exhibits.

Exhibit No.	Applicable to Form 10-Q of LG&E	KU	Description
4.1		X	Supplemental Indenture dated July 1, 2006 between KU and U.S. Bank National Association, Chicago Illinois, as Trustee. [Filed as Exhibit 4.1 to KU's Current Report on Form 8-K dated July 20, 2006 and incorporated by reference herein.]
4.2		X	Loan Agreement dated as of June 1, 2006 between KU and the County of Carroll, Kentucky. [Filed as Exhibit 4.2 to KU's Current Report on Form 8-K dated July 20, 2006 and incorporated by reference herein.]
10.01	X	X	Copies of E.ON Share Performance Plan (i) Terms and Conditions for the 1. Tranche (2006-2008) and (ii) Technical Annex, each dated as of June 2006.
10.02	X	X	Copies of form representative specimen Certificate Award under E.ON Share Performance Plan

31.1 X Certification of Chairman of the Board, President and Chief
Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 X Certification of Chairman of the Board, President and Chief
Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.4 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 X X Certification pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002

Certain instruments defining the rights of holders of certain long-term
debt of LG&E or KU have not been filed with the SEC but will be furnished
to the SEC upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the
registrant has duly caused this report to be signed on its behalf by the
undersigned thereunto duly authorized.

Louisville Gas and Electric Company
Registrant

Date: November 9, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his capacities as Principal Financial Officer
and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the
registrant has duly caused this report to be signed on its behalf by the
undersigned thereunto duly authorized.

Kentucky Utilities Company
Registrant

Date: November 9, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his
capacities as Principal Financial

Officer

and Principal Accounting Officer)

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SEC Form 10-Q – June 30, 2006

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-2893	Louisville Gas and Electric Company (A Kentucky Corporation) 220 West Main Street P. O. Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (A Kentucky and Virginia Corporation) One Quality Street Lexington, Kentucky 40507-1428 (859) 255-2100	61-0247570

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer_____

Non-accelerated filer __X___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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:

Louisville Gas and Electric Company - 21,294,223 shares, without par value, as of July 31, 2006, all held by E.ON U.S. LLC

Kentucky Utilities Company - 37,817,878 shares, without par value, as of July 31, 2006, all held by E.ON U.S. LLC

This combined Form 10-Q is separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein related to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information related to the other registrants.

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Company	LG&E or KU, as applicable
Companies	LG&E and KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FGD	Flue Gas Desulfurization
FTR	Financial Transmission Rights
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LIBOR	London Interbank Offer Rate

LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO2	Sulfur Dioxide
TEMT	Transmission and Energy Markets Tariff
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Part I. Financial Information - Item 1. Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income (Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES:				
Electric	$223	$228	$435	$457
Gas	54	53	254	225
Total operating revenues	277	281	689	682
OPERATING EXPENSES:				
Fuel for electric generation	70	68	135	129
Power purchased	26	28	54	67
Gas supply expenses	38	36	200	171
Other operation and maintenance expenses	65	65	143	139
Depreciation and amortization	31	31	61	62
Total operating expenses	230	228	593	568
OPERATING INCOME	47	53	96	114
Other expense - net	1	-	1	-
Interest expense (Note 3)	6	6	13	12
Interest expense to affiliated companies (Note 8)	3	3	7	6

INCOME BEFORE INCOME TAXES	37	44	75	96
Federal and state income taxes	12	16	25	34
NET INCOME	$25	$28	$50	$62

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

Statements of Retained Earnings (Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period	$605	$538	$621	$534
Net income	25	28	50	62
Subtotal	630	566	671	596
Cash dividends declared on stock:				
Cumulative preferred	1	1	2	2
Common	20	10	60	39
Subtotal	21	11	62	41
Balance at end of period	$609	$555	$609	$555

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2006	December 31, 2005
Current Assets:		
Cash and cash equivalents	$ 5	$ 7
Accounts receivable - less reserves of $1 million as of June 30,2006		

and December 31, 2005	123	231
Accounts receivable from affiliated companies (Note 8)	19	36
Materials and supplies:		
Fuel (predominantly coal)	53	39
Gas stored underground	30	125
Other materials and supplies	29	28
Prepayments and other current assets	4	6
Total current assets	263	472
Other property and investments - less reserves of less than $1 million as of June 30, 2006 and December 31, 2005	1	1
Utility plant:		
At original cost	4,077	4,049
Less: reserve for depreciation	1,523	1,509
Net utility plant	2,554	2,540
Deferred debits and other assets:		
Restricted cash	7	10
Unamortized debt expense	8	8
Regulatory assets (Note 2)	78	84
Other assets	36	31
Total deferred debits and other assets	129	133
Total assets	$2,947	$3,146

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$248	$248
Notes payable to affiliated companies (Note 5 and Note 8)	1	141
Accounts payable	80	141
Accounts payable to affiliated companies (Note 8)	47	52
Accrued income taxes	9	6
Customer deposits	18	17
Other current liabilities	26	15
Total current liabilities	429	620
Long-term debt:		
Long-term debt (Note 5)	328	328
Long-term debt to affiliated company (Note 5 and Note 8)	225	225
Mandatorily redeemable preferred stock	20	20
Total long-term debt	573	573

Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	312	322
Investment tax credit, in process of amortization	40	42
Accumulated provision for pensions and related benefits	129	143
Customer advances for construction	10	10
Asset retirement obligation	27	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	225	219
Regulatory liability deferred income taxes	44	42
Other regulatory liabilities	42	20
Other liabilities	23	31
Total deferred credits and other liabilities	852	856
Cumulative preferred stock	70	70
Common equity:		
Common stock, without par value - Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(50)	(58)
Retained earnings	609	621
Total common equity	1,023	1,027
Total liabilities and equity	$2,947	$3,146

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Six Months Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$50	$62
Items not requiring cash currently:		
Depreciation and amortization	61	62
Deferred income taxes	(13)	(11)
VDT amortization	7	15
Other	(3)	(3)
Changes in current assets and liabilities:		
Accounts receivable	108	41
Accounts receivable from affiliated companies	17	(15)
Fuel	(14)	(6)
Gas stored underground	95	58
Other changes in current assets	1	-
Accounts payable	(61)	(39)
Accounts payable to affiliated companies	(5)	29
Accrued income taxes	3	(6)

Other changes in current liabilities	12	(7)
Pension funding (Note 4)	(18)	-
Gas supply clause receivable, net	31	2
Other	(8)	(3)
Net cash provided by operating activities	263	179
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(66)	(51)
Change in restricted cash	3	(2)
Net cash used for investing activities	(63)	(53)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term borrowings from affiliated company (Note 8)	-	(50)
Repayment of short-term borrowings from affiliated company (Note 5)	(140)	(37)
Payment of dividends	(62)	(41)
Net cash used for financing activities	(202)	(128)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$5

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$25	$28	$50	$62
Income Taxes - Minimum Pension Liability	-	-	-	(1)
Gain (loss) on derivative instruments and hedging activities - net of tax *benefit (expense) of $(2) million*, $5 million, $(5) million and $4 million, respectively (Note 4)	3	(8)	8	(6)
Comprehensive income (loss), net of tax	3	(8)	8	(7)

Comprehensive income	$28	$20	$58	$55

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

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES	$276	$265	$569	$552
OPERATING EXPENSES:				
Fuel for electric generation	100	84	195	172
Power purchased	44	50	90	96
Other operation and maintenance expenses	63	68	133	126
Depreciation and amortization	29	29	57	58
Total operating expenses	236	231	475	452
OPERATING INCOME	40	34	94	100
Other (income) - net	(5)	(2)	(13)	(3)
Interest expense (Note 3)	4	4	7	7
Interest expense to affiliated companies (Note 5 and Note 8)	5	4	11	7
INCOME BEFORE INCOME TAXES	36	28	89	89
Federal and state income taxes	11	10	29	34
NET INCOME	$25	$18	$60	$55

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period	$753	$666	$718	$660
Net income	25	18	60	55
Subtotal	778	684	778	715
Cash dividends declared on stock:				
Cumulative preferred	-	-	-	1
Common	-	10	-	40
Subtotal	-	10	-	41
Balance at end of period	$778	$674	$778	$674

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

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

	June 30,	December 31,
ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	$5	$7
Restricted cash	10	22
Accounts receivable - less reserves of $2 million as of June 30, 2006 and December 31, 2005	113	135
Accounts receivable from affiliated companies (Note 8)	18	32
Materials and supplies:		
Fuel (predominantly coal)	75	55
Other materials and supplies	35	32
Prepayments and other current assets	9	5
Total current assets	265	288

Other property and investments - less reserves of less than $1 million as of June 30,2006 and December 31, 2005	22	23
Utility plant:		
At original cost	3,944	3,847
Less: reserve for depreciation	1,532	1,508
Net utility plant	2,412	2,339
Deferred debits and other assets:		
Unamortized debt expense	5	5
Regulatory assets (Note 2)	70	58
Cash surrender value of key man life insurance	34	32
Other assets	9	11
Total deferred debits and other assets	118	106
Total assets	$2,817	$2,756

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$140	$123
Notes payable to affiliated companies (Note 5 and Note 8)	52	70
Accounts payable	81	89
Accounts payable to affiliated companies (Note 8)	60	53
Accrued income taxes	-	13
Customer deposits	18	17
Other current liabilities	24	18
Total current liabilities	375	383
Long-term debt:		
Long-term debt (Note 5)	186	240
Long-term debt to affiliated company (Note 5 and Note 8)	433	383
Total long-term debt	619	623
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	277	274
Accumulated provision for pensions and related benefits	97	92
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	288	281
Regulatory liability deferred income taxes	22	23
Other regulatory liabilities	10	11

Other liabilities	19	20
Total deferred credits and other liabilities	741	728
Common equity:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878	308	308
Additional paid-in capital	15	15
Accumulated comprehensive loss	(19)	(19)
Retained earnings	765	704
Undistributed subsidiary earnings	13	14
Total retained earnings	778	718
Total common equity	1,082	1,022
Total liabilities and equity	$2,817	$2,756

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

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

	Six Months Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$60	$55
Items not requiring cash currently:		
Depreciation and amortization	57	58
Deferred income taxes	2	(4)
VDT amortization	3	6
Other	6	(5)
Changes in current assets and liabilities:		
Accounts receivable	22	26
Accounts receivable from affiliated companies	14	(21)
Fuel	(20)	(5)
Other changes in current assets	(7)	3
Accounts payable	(8)	(20)
Accounts payable to affiliated companies	7	35
Accrued income taxes	(13)	(2)
Other changes in current liabilities	7	(12)
Fuel adjustment clause receivable, net	(15)	(13)
Other	(4)	2
Net cash provided by operating activities	111	103
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(121)	(44)
Change in restricted cash	12	-
Net cash used for investing activities	(109)	(44)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 5)	(36)	(50)
Short-term borrowings from affiliated company		

(Note 5)	-	58
Long-term borrowings from affiliated company (Note 5)	50	-
Repayment of short-term borrowings from affiliated company (Note 5)	(18)	-
Repayment of other borrowings	-	(27)
Payment of dividends	-	(41)
Net cash used for financing activities	(4)	(60)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$4

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$25	$18	$60	$55
Comprehensive income, net of tax	-	-	-	-
Comprehensive income	$25	$18	$60	$55

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

Louisville Gas and Electric Company
Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

1. General

The unaudited financial statements include the accounts of the Companies. The common stock of each Company is wholly-owned by E.ON U.S. In the opinion of management, the unaudited condensed interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Companies believe that the disclosures are adequate to make the information presented not misleading.

See the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005, for information relevant to the accompanying financial statements, including information as to the significant accounting policies of the Companies.

New Accounting Pronouncements

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,* Accounting for Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. The Companies are now analyzing the future impacts of FIN 48 on results of operations and financial condition.

2. Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities for the Companies, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 3 of the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of June 30, 2006 and December 31, 2005:

Louisville Gas and Electric Company
(Unaudited)

(in millions)	June 30, 2006	December 31, 2005
ARO	$21	$20
Gas supply adjustments	21	29
Unamortized loss on bonds	20	21
ECR	6	2
FAC	5	-
VDT	-	7
Other	5	5
Total regulatory assets	$78	$84
Accumulated cost of removal of utility plant	$225	$219
Deferred income taxes - net	44	42
Gas supply adjustments	40	17

Other	2	3
Total regulatory liabilities	$311	$281

LG&E currently earns a return on all regulatory assets, excluding the ARO regulatory assets, gas supply adjustments and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The gas supply adjustments and the FAC have separate rate mechanisms with recovery within twelve months.

The increase in FAC for the period is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the period is due to the completion of the amortization of the VDT in the first quarter of 2006. The increase in the Gas supply adjustments net liability for the period reflects over-recovery of gas supply costs, in process of being refunded to customers.

The following regulatory assets and liabilities were included in KU's Balance Sheets as of June 30, 2006 and December 31, 2005:

Kentucky Utilities Company
(Unaudited)

(in millions)	June 30, 2006	December 31, 2005
ARO	$21	$20
Unamortized loss on bonds	10	11
ECR	5	4
FAC	27	12
VDT	-	3
Other	7	8
Total regulatory assets	$70	$58
Accumulated cost of removal of utility plant	$288	$281
Deferred income taxes - net	22	23
Other	10	11
Total regulatory liabilities	$320	$315

KU currently earns a return on all regulatory assets, excluding the ARO regulatory assets and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The FAC has a separate recovery mechanism with recovery within twelve months.

The increase in FAC for the period is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the period is due to the completion of the amortization of the VDT in the first quarter of 2006.

ELECTRIC AND GAS RATE CASES

On June 30, 2004, the Kentucky Commission issued an order approving an increase in the base electric rates of the Companies and the natural gas rates of LG&E. The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of the Companies, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between the Companies and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission agreed to hold in abeyance further proceedings in the rate case, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by the Companies in their conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate case. To date, the Companies have neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an order noting completion of its inquiry, including review of the AG's investigative report. The order concludes that no improper communications occurred during the rate proceeding. The order further established a procedural schedule through the first quarter of 2006 for considering the sole issue for which rehearing was granted: state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an order resolving this issue in the Companies' favor consistent with the original rate increase order.

The Companies believe no improprieties have occurred in their communications with the Kentucky Commission and have cooperated in the proceedings before the AG and the Kentucky Commission. The Companies are currently unable to predict whether there will be any additional actions or consequences as a result of the AG's report and investigation.

ECR

In June 2006, the Companies filed applications to amend their ECR plans with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Companies' generating facilities. The estimated capital cost of the upgrades for the years 2006 through 2008 is approximately $391 million ($66 million for LG&E and $325 million for KU), of which $229 million is for the Air Quality Control System at Trimble County Unit 2 ($44 million for LG&E and $185 million for KU) and $95 million is for KU's Ghent Unit 2 Selective Catalytic Reduction. A final order is expected to be issued by the end of 2006.

In April 2006, the Kentucky Commission initiated routine periodic reviews of the ECR mechanisms for the Companies. These proceedings are expected to be completed before the end of the third quarter of 2006.

In December 2004, KU and LG&E filed applications with the Kentucky Commission for approval of a CCN to construct new SO2 control technology (FGDs) at KU's Ghent and Brown stations, and to amend LG&E's compliance plan to allow recovery of new and additional environmental compliance facilities. The estimated capital cost of the additional facilities for 2006 through 2008 is approximately $720 million ($40 million for LG&E and $680 million for KU), of which $560 million is for the KU FGDs at Brown and Ghent. Hearings in these cases occurred during May 2005 and final orders were issued in June 2005, granting approval of the CCN and amendments to the Companies' compliance plans.

FAC

On February 15, 2006, KU filed with the Virginia Commission an application seeking approval of an increase in its fuel cost factor to reflect higher fuel costs incurred during 2005, and anticipated to be incurred in 2006, of approximately $6 million. The Virginia Commission approved KU's request on April 5, 2006.

VDT

In December 2001, the Companies received an order from the Kentucky Commission permitting them to set up regulatory assets for workforce reduction costs (VDT costs) and begin amortizing them over a five-year period beginning in April 2001. The order also reduced revenues through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to the Companies) of the stipulated savings, net of amortization costs, of the workforce reduction. The five-year VDT amortization period ended March 31, 2006.

On February 27, 2006, the AG, Kentucky Industrial Utility Consumers, Inc. and the Companies reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E or KU file for a change in electric or natural gas base rates. The Kentucky Commission issued an order on March 24, 2006, approving the settlement agreement.

MISO

The MISO is a non-profit independent transmission system operator that controls more than 100,000 miles of transmission lines over 1.1 million square miles in 17 northern Midwest states and one Canadian province. The MISO operates the regional power grid and wholesale electricity market in an effort to optimize efficiency and safeguard reliability in accordance with federal energy policy.

The Companies are now involved in proceedings with the Kentucky Commission and the FERC seeking the authority to exit the MISO. Based on various financial analyses performed internally due to the July 2003 Kentucky Commission investigation into MISO membership, and particularly in light of the financial impact of MISO's implementation of the new day-ahead and real-time markets, the Companies determined that the costs of MISO membership, both now and in the future, outweigh the benefits. A timeline of events regarding the MISO and various proceedings is as follows:

- September 1998 - The FERC granted conditional approval for the formation of the MISO. The Companies were founding members.

- October 2001 - The FERC ordered that all bundled retail loads and grandfathered wholesale loads of each member transmission owner be included in the calculation of the MISO "cost adder," the Schedule 10 charges designed to recover the MISO's cost of operation, including start-up capital (debt) costs. The Companies and several owners opposed the FERC order and filed suit with the United States Court of Appeals.

- February 2002 - The MISO began commercial operations.

- February 2003 - The FERC reaffirmed its position on the Schedule 10 charges and the order was subsequently upheld by the U.S. Court of Appeals.

- July 2003 - The Kentucky Commission opened an investigation into the Companies' MISO membership. Testimony was filed by the Companies that supported an exit from the MISO, under certain conditions.

- August 2004 - The MISO filed its FERC-required TEMT. The Companies and other owners filed opposition to certain conditions of the TEMT and sought to delay the implementation. Such opposition was denied by the FERC.

- December 2004 - The Companies provided the MISO its required one-year notice of intent to exit the grid.

- April 2005 - The MISO implemented its day-ahead and real-time market (MISO Day 2), including a congestion management system.

- October 2005 - The Companies filed documents with the FERC seeking authority to exit the MISO.

- November 2005 - The Companies requested a Kentucky Commission order authorizing the transfer of functional control of their transmission facilities from the MISO to the Companies respectively, for the purpose of withdrawing from the MISO. The request stated that the Tennessee Valley Authority ("TVA") would have control to the extent necessary to act as the Companies' Reliability Coordinator and for the Southwest Power Pool, Inc. ("SPP") to perform its function as the Companies' Independent Transmission Organization. The Kentucky Commission issued an order authorizing this transfer in July 2006.

- March 2006 - the FERC issued an order conditionally approving the request of the Companies to exit the MISO. The FERC order contained a number of conditions that the Companies needed to satisfy to effect their exit from the MISO including:

  - Submission of various compliance filings addressing:

    - the Companies' hold-harmless obligations under the MISO Transmission Owners' Agreement, and the amount of the MISO exit fee to be paid by the Companies as calculated under the approved methodology;
    - the Companies' anticipated arrangements with Southwest Power Pool, Inc. and Tennessee Valley Authority, including revisions to address certain independence and transmission planning considerations, and reciprocity arrangements to ensure certain KU requirements customers do not incur pancaked rates for transmission and ancillary services;
    - the Companies' proposed *Open Access Transmission Tariff* as revised to address possible capacity hoarding, available transmission calculation methodology, curtailment priority and pricing, among other matters; and
    - the Companies' finalized arrangements with the Southwest Power Pool, Inc. and Tennessee Valley Authority.

  - The Companies must also file an application of the proposed Open Access Transmission Tariff under Section 205 of the Federal Power Act including a proposed return on equity. During April 2006 through the present, the Companies have submitted filings to the FERC addressing the majority of the conditions contained in the March 2006 order, including a proposed return on equity of 10.88% as part of its open access transmission tariff effective upon any exit from the MISO.

- May 2006 - the Kentucky Commission issued an order approving the request of the Companies to exit the MISO. The order authorized the Companies, upon exit of the MISO, to establish a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues which may be collected via current base rates as a result of the existing inclusion of amounts associated with certain MISO Schedule 10 charges.

- July 2006 - the Kentucky Commission issued an order approving the Companies' contractual arrangements with TVA and SPP to provide services to the Companies as reliability coordinator and independent transmission organization, respectively, upon a withdrawal from the MISO. This order was subject to certain conditions based upon a satisfactory outcome of pending FERC proceedings involving the Companies' market-based rate authority.

- July 2006 - the Kentucky Commission issued further orders denying the MISO's request for a rehearing regarding the May 2006 order and denying the MISO's request for intervenor status in the proceeding concerning the Companies' TVA/SPP arrangements.

- July 2006 - the FERC issued a further decision accepting, in substantial part, certain of the Companies' steps, including compliance and other filings, which constituted conditions to the FERC's March 2006 order conditionally approving their exit from the MISO. Also in July 2006, the FERC issued an order denying the MISO's request for a rehearing regarding the FERC's March 2006 order.

The Companies now estimate that they may complete their exit from the MISO during late summer 2006. The Companies have tendered a contractual notice to the MISO providing for a withdrawal date of September 1, 2006. There remain certain further conditions that must be satisfied under the FERC's exit orders, which conditions the Companies currently anticipate they can accomplish. The Companies are in continuing discussions with the MISO concerning operational elements of the exit and transition.

On or about the date of a completed exit from the MISO, and following initial calculation and invoicing from the MISO, the Companies would pay an exit fee to the MISO in an amount of up to approximately $41 million (allocated approximately $16 million for LG&E and $25 million for KU). The ultimate amount would be determined based upon the actual timing and circumstances of exit and, following payment, is subject to confirmation, correction and true-up, as agreed between the Companies and the MISO. The Kentucky Commission's May 2006 order granted certain relief regarding the exit fee, including the establishment of a regulatory asset relating to such fee and continuing ability to recover certain MISO charges in existing rates.

While the Companies believe they can reasonably achieve the remaining conditions imposed by the FERC relating to MISO exit by the late summer, including possibly as early as September 1, 2006, the actual timing or occurrence of withdrawal cannot be assured.

Market-Based Rate Authority

Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with the Companies' tri-annual market-based rate tariff renewals, the FERC continued to contend that the Companies failed such market screens in certain regions. The Companies disputed this contention and, in January 2006, in an attempt to resolve the matter, the Companies submitted proposed tariff schedules to the FERC containing a mitigation mechanism with respect to applicable power sales into the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky, where Western Kentucky Energy Corp., an affiliate of the Companies, maintains a long-term contractual relationship with BREC. Under the proposed tariff schedule, prices for such sales would be capped at a relevant MISO power pool index price. Should the Companies exit the MISO, the FERC contended that they would have market power in their own joint control area, potentially requiring a similar mitigation mechanism for power sales into such region. In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Companies received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and the Companies' market-based rate authority is subject to such future developments.

In some cases, recent FERC decisions in other market-based rate proceedings have proposed or required cost-based, rather than market index, price caps. The Companies cannot predict the ultimate impact of the current or potential mitigation mechanisms on their future wholesale power sales.

EPAct 2005

The EPAct 2005 was enacted on August 8, 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives (see Note 6); repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC remains in various stages of rulemaking on these issues and the Companies are monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. The Companies continue to evaluate the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any uncompleted rulemakings, will have on their operations or financial position.

3. Financial Instruments

The Companies use over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

As of June 30, 2006, LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Bond Market Association's municipal swap index averaging 3.67% at June 30, 2006. The swap agreements in effect at June 30, 2006, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The hedges have been deemed to be fully effective resulting in a pretax gain of $13 million for the six months ended June 30, 2006, recorded in comprehensive income. Upon expiration of these hedges, the amount recorded in comprehensive income will be reclassified into earnings. The amounts expected to be reclassified from comprehensive income to earnings in the next twelve months are immaterial. A deposit in the amount of $7 million, used as collateral for the $83 million interest rate swap, is classified as restricted cash on LG&E's Balance Sheet. The amount of the deposit required is tied to the market value of the swap.

As of June 30, 2006, KU was party to an interest rate swap agreement with a notional amount of $53 million. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.24%, and received fixed rates averaging 7.92% at June 30, 2006. The swap agreement in effect at June 30, 2006 has been designated as a fair value hedge and matures in 2007. At June 30, 2006, the effect of marking this financial instrument and the underlying debt to market resulted in pretax gains recorded in interest expense of less than $1 million.

Interest rate swaps hedge interest rate risk on the underlying debt. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, in addition to swaps being marked to market, the item being hedged using a fair value hedge must also be marked to market. Consequently at June 30, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

At June 30, 2006, the Companies' percentage of debt having a variable rate, including the impact of interest rate swaps, was 44%($364 million) for LG&E and 47% ($378 million) for KU.

4. Pension and Other Post-retirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three and six months ended June 30, 2006 and 2005:

(in millions)	Three Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU	Six Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU
Pension and Other Benefit Plans								
Components of net periodic benefit cost								
Service cost	$2	$2	$1	$2	$3	$4	$3	$3
Interest cost	5	5	6	4	11	8	12	9
Expected return on plan assets	(5)	(4)	(5)	(4)	(10)	(7)	(11)	(8)
Amortization of prior service cost	1	-	1	-	2	1	3	1
Recognized actuarial loss	1	1	1	1	2	2	1	1
Total net period benefit cost	$4	$4	$4	$3	$8	$8	$8	$6

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

5. Short-Term and Long-Term Debt

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, and KU's variable-rate pollution control bonds Series 10, 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the six months ending June 30, 2006 was 3.38% for LG&E and 3.41% for KU.

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. There was no outstanding balance under any of these facilities at June 30, 2006. LG&E expects to renew these facilities prior to their expiration in June 2007.

LG&E, KU and E.ON U.S. participate in an intercompany money pool agreement. Details of the balances at June 30, 2006 and December 31, 2005 were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2006:				
LG&E	$400	$ 1	$399	4.96%
KU	$400	$ 52	$348	4.96%
December 31, 2005:				
LG&E	$400	$141	$259	4.21%
KU	$400	$ 70	$330	4.21%

E.ON U.S. maintains a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance outstanding on this facility at June 30, 2006, was $64 million.

Redemptions and maturities of long-term debt year-to-date through June 30, 2006, are summarized below:

($ in millions)

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	KU	First mortgage bonds	$36	5.99%	Secured	Jan 2006

Issuances of long-term debt year-to-date through June 30, 2006, are summarized below:

($ in millions)

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	KU	Fidelia note	$50	6.33%	Unsecured	Jun 2036

6. Commitments and Contingencies

Except as may be discussed in this Quarterly Report on Form 10-Q (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Companies' Annual Report on Form 10-K for the year ended December 31, 2005 (including in Notes 3 and 10 to the financial statements of the Companies contained therein) and Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (including in Notes 2 and 6 to the financial statements contained therein). See the above-referenced notes in the Companies' Annual Report on Form 10-K and Quarterly Report on Form 10-Q for information regarding such commitments or contingencies.

TRIMBLE COUNTY UNIT 2

In June 2006, the Companies, as 75% owners, entered into and delivered notice to proceed under an engineering, procurement and construction agreement with Bechtel Power Corporation ("Bechtel"), regarding construction of Trimble County Unit 2 valued at approximately $1.1 billion. IMEA and IMPA, as 25% owners, are also parties to the contract. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In general, termination by the owners for convenience or by the contractor due to owners' default will limit payment obligations to payment for work or incentives performed or earned to date and termination by owners due to contractor's default will similarly limit payment obligations, subject however to owners' rights with respect to cover damages and to certain collateral provided. In connection with this matter, the Companies dismissed their litigation against Bechtel regarding the contract previously commenced in April 2006 in United States District Court for the Western District of Kentucky.

In June 2006, the Companies filed an application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of Trimble County Unit 2. The EPAct 2005 added a new 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. The application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying Trimble County Unit 2 expenditures. The DOE is anticipated to select and certify feasible and suitable qualifying projects, in their discretion, from among the applicant group during the late fall of 2006. If selected, the Companies would submit an additional application to the Internal Revenue Service ("IRS"). IRS action on such applications would thereafter be expected to occur during the fourth quarter of 2006. If, and to the extent the Companies' applications are ultimately accepted, the Companies could thereafter claim allocated federal income tax credits on eligible expenditures, as they occur over time, relating to the Trimble County Unit 2 project.

LOUISVILLE DOWNTOWN ARENA

LG&E has been asked by the Louisville Arena Authority, Inc., a non-profit corporation (the "Authority"), to transfer certain property and relocate certain LG&E facilities so that an LG&E-owned site, in part, could be used for the development and construction of a new multi-purpose arena in Louisville, Kentucky. The Authority and LG&E are negotiating a non-binding letter of intent regarding the arena transactions. LG&E estimates that the cost of relocating the LG&E facilities will be approximately $63 million and LG&E expects to request that the Authority arrange for the provision of state funds necessary for the relocation, as well as up to $10 million in state funds for the purchase of the property at fair market value. Current estimates are that the arena project could be completed by approximately 2010. The anticipated letter of intent would be subject to a number of contingencies, including completion of definitive documents and regulatory approvals necessary for the transactions contemplated.

OMU LITIGATION

In May 2004, the City of Owensboro, Kentucky and Owensboro Municipal Utilities (collectively "OMU") commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks approximately $6 million in damages for periods prior to 2004 and OMU is expected to claim further amounts for later-occurring periods. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction over the matter. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time the district court case is in the discovery stage and a trial schedule has not yet been established.

In May 2006, OMU issued a notification of its intent to terminate the contract in May 2010, without cause, absent any earlier termination which may be permitted by the proceeding.

ENVIRONMENTAL MATTERS

In April 2006, the EPA issued a notice of violation for alleged violations of the Clean Air Act involving work performed on Unit 3 of KU's E.W. Brown Station in 1997. The EPA alleges modification of a source without a permit, failure to comply with requirements under the Prevention of Significant Deterioration ("PSD") program, operation of a source in violation of the New Source Performance Standards ("NSPS"), and failure to identify the applicability of PSD and NSPS requirements in compliance certifications. Violations, if ultimately found, could result in additional expenditures on pollution controls or civil penalties. KU has responded to certain data requests of the EPA and held initial discussions with the EPA regarding this matter. Due to the early stage of this matter, KU is unable to determine its ultimate potential impact.

The Companies are subject to SO2 and NOx emission limits on their electric generating units pursuant to the Clean Air Act. The Companies placed into operation significant NOx controls for their generating units prior to the 2004 summer ozone season. As of June 30, 2006, LG&E and KU have incurred total capital costs of approximately $191 million and $217 million, respectively, to reduce their NOx emissions to required levels. In addition, the Companies incur additional operating and maintenance costs in operating the new NOx controls. On March 10, 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO_2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. On March 15, 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in 2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and the CAMR establish a cap and trade framework, in which a limit is set on total emissions and allowances can be bought or sold on the open market to be used for compliance, unless the state chooses another approach. LG&E currently has FGDs on all its coal-fired units, but will continue to evaluate improvements to further reduce SO_2 emissions.

In order to meet these new regulatory requirements, KU has implemented a plan for adding significant additional SO_2 controls to its generating units. Installation of additional SO_2 controls will proceed on a phased basis, with construction of controls (*i.e., FGDs) having commenced* in September 2005 and continuing through the final installation and operation in 2009. KU estimates that it will incur $659 million in capital costs related to the construction of the FGDs to achieve compliance with current emission limits on a company-wide basis. Of this amount, $77 million has been incurred through June 30, 2006. In addition, KU will incur additional operating and maintenance costs in operating the new SO_2 controls.

The Companies are also monitoring several other air quality issues which may potentially impact coal-fired power plants, including the EPA's revised air quality standards for ozone and particulate matter and measures to implement the EPA's Clean Air Visibility Rule.

In the normal course of business, lawsuits, claims, environmental actions and various non-ratemaking governmental proceedings arise against the Companies. To the extent that damages are assessed in any lawsuits relating to the above, the Companies believe that their insurance coverage or other appropriate reserves are adequate. Management, after consultation with legal counsel, and based upon the present status of these items, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims of the type referenced above will have a material adverse effect on the Companies' financial position or results of operations.

7. Segments of Business

LG&E's revenues, net income and total assets by business segment for the three and six months ended June 30, 2006 and 2005, follow:

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
LG&E Electric				
Revenues	$223	$228	$435	$457
Net income	27	30	42	54
Total assets	2,440	2,404	2,440	2,404
LG&E Gas				
Revenues	54	53	254	225
Net income	(2)	(2)	8	8
Total assets	507	454	507	454
Total				
Revenues	277	281	689	682
Net income	25	28	50	62
Total assets	2,947	2,858	2,947	2,858

KU is an electric utility company. It does not provide natural gas service and, therefore, is presented as a single business segment.

8. Related Party Transactions

LG&E, KU, subsidiaries of E.ON U.S. and other subsidiaries of E.ON engage in related-party transactions. These transactions are generally performed at cost and in accordance with applicable FERC, Kentucky Commission and Virginia Commission regulations. The significant related-party transactions are disclosed below.

Electric Purchases

The Companies' intercompany electric revenues and purchased power expense from affiliated companies for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU	Six Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU
Electric operating revenues from KU	$22	$-	$21	$-	$44	$-	$47	$-
Electric operating revenues from LG&E	-	17	-	19	-	36	-	49
Purchased power from KU	17	-	19	-	36	-	49	-
Purchased power from LG&E	-	22	-	21	-	44	-	47

Interest Charges

The Companies' intercompany interest income and expense for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU	Six Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU
Interest on money pool loans	$-	$1	$-	$-	$1	$2	$-	$-
Interest on Fidelia loans	3	4	3	4	6	9	6	7

Other Intercompany Billings

Other intercompany billings related to the Companies for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
E.ON U.S. Services billings to LG&E	$69	$76	$105	$108
E.ON U.S. Services billings to KU	78	75	120	101
LG&E billings to E.ON U.S. Services	2	1	3	5
KU billings to E.ON U.S. Services	2	-	3	4
LG&E billings to KU	6	7	10	10

KU billings to LG&E	3	9	15	13

9. Subsequent Events

On July 14, 2006, LG&E redeemed 12,500 shares of its 5.875% mandatorily redeemable preferred stock pursuant to sinking fund requirements at $100 per share.

On July 20, 2006, KU completed a new tax-exempt financing totaling approximately $17 million. The new bonds, due June 1, 2036, have a variable, auction rate of interest.

Effective August 1, 2006, KU and its employees represented by IBEW Local 2100 entered into a new three-year collective bargaining agreement. Such agreement provides for routine updates to wages, benefits or other provisions and provides for annual wage re-openers for the second and third years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion and analysis by management focuses on those factors that had a material effect on the Companies' financial results of operations and financial condition during the three and six month periods ended June 30, 2006, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially.
Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Companies' reports to the SEC, including the Annual Reports on Form 10-K for the year ended December 31, 2005.

Executive Summary

LG&E and KU, subsidiaries of E.ON U.S. (indirect subsidiaries of E.ON), are regulated public utilities. At June 30, 2006, LG&E supplied electricity to approximately 398,000 customers and natural gas to approximately 323,000 customers in Louisville and adjacent areas in Kentucky. At June 30, 2006, KU provided electricity to approximately 497,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in southwestern Virginia and 5 customers in Tennessee. KU also sells wholesale electricity to 12 municipalities.

The mission of the Companies is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

The Companies' strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

In a June 2004 order, the Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by the Companies in December 2003. Under the ruling, the LG&E utility base electric rates have increased $43 million (7.7%) and base natural gas rates have increased $12 million (3.4%) annually. Base electric rates at KU have increased $46 million (6.8%) annually. The rate increases took effect on July 1, 2004. The 2004 increases were the first increases in electric base rates for the Companies in 13 and 20 years, respectively; the previous natural gas rate increase for the LG&E gas utility took effect in September 2000.

The Companies have begun construction of another base-load coal-fired unit at the Trimble County site. The Companies believe this is the least cost alternative to meet the future needs of customers. Trimble County Unit 2, with a 750 Mw capacity rating, is expected to be jointly owned by the Companies (75% owners of the unit) and IMEA and IMPA (25% owners). Trimble County Unit 2 is expected to cost $1.1 billion and be completed by 2010. The Companies' aggregate 75% share of the total Trimble County Unit 2 capital cost is approximately $885 million and is estimated to be approximately $120 million for LG&E and $510 million for KU through 2008. Through June 2006, expenditures for Trimble County Unit 2 have been $7 million for LG&E and $25 million for KU. In June 2006, the Companies entered into a construction contract regarding the Trimble County Unit 2 project. See Note 6 of the Notes to Financial Statements, in Part 1, Item 1, herein.

In November 2005, the Kentucky Commission approved the CCN construction application of the Companies to expand the Trimble County generating plant. Kentucky Commission approvals for the related transmission line CCNs were granted in September 2005 and May 2006. In July 2006, certain property owners filed a motion for judicial appeal of the latter transmission line CCN ruling. A schedule for such proceeding has not been established. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge are expected to continue during 2006 with a hearing scheduled for October 2006. A ruling thereafter may be anticipated in the first half of 2007.

In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E and KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and plan to submit procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organization and operational improvements as described above and are not expected to have a material adverse impact on the Companies' results of operations or financial condition.

Results of Operations

The results of operations for the Companies are affected by seasonal fluctuations in temperature and other weather-related factors. Because of these and other factors, the results of one interim period are not necessarily indicative of results or trends to be expected for the full year.

Three Months Ended June 30, 2006, Compared to Three Months Ended June 30, 2005

LG&E Results:

LG&E's net income decreased $3 million (11%) for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005, primarily due to lower electricity and natural gas retail and wholesale sales volumes resulting largely from milder weather than in the prior year.

A comparison of LG&E's revenues for the three months ended June 30, 2006, with the three months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$6	$7
Environmental cost recovery surcharge	(3)	-
Variation in sales volume and other	(5)	(2)
Total retail sales	(2)	5
Wholesale sales	(4)	(4)
Other	1	-
Total	$(5)	$1

Electric revenues decreased $5 million (2%) primarily due to:
- Decreased wholesale revenues ($4 million) largely due to 4% lower volumes
- Decreased retail electric volumes delivered ($5 million) resulting from a 14% decrease in cooling degree days in the second quarter of 2006 compared to the same period in 2005 and an 16% decrease from the 20-year average
- Decreased environmental cost recovery ($3 million) due to lower ECR billing rates

- Increased fuel costs billed to customers through the fuel adjustment clause ($6 million) due to higher costs of coal and natural gas

Gas revenues increased $1 million (2%) primarily due to:
- Increased gas supply costs billed to customers through the gas supply adjustment ($7 million) due to the higher cost of natural gas
- Decreased wholesale revenues ($4 million) as a result of 7% lower volumes due to lower demand from wholesale customers
- Decreased retail gas volumes delivered ($2 million) resulting from a 17% decrease in heating degree days in the second quarter of 2006 compared to the same period in 2005 and an 20% decrease from the 20-year average

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $2 million (3%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($4 million) due to higher fuel prices
- Decreased generation ($2 million) due to lower wholesale and retail sales volumes

Power purchased decreased $2 million (7%) in 2006 primarily due to:
- Decreased volumes purchased ($6 million) due to lower wholesale and retail sales
- Increased unit cost of purchases ($4 million) due to higher market prices

Gas supply expenses increased $2 million (6%) in 2006 primarily due to:
- Increased unit cost of natural gas purchased ($8 million)
- Decreased volumes of natural gas delivered into the distribution system ($6 million) due to milder weather

A comparison of the LG&E effective income tax rate for the three months ended June 30, 2006 and 2005 follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005

Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.5	5.2
Amortization of investment tax credits	(2.7)	(2.3)
Other differences	(3.4)	(1.5)
Effective income tax rate	32.4%	36.4%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $7 million (39%) for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005, primarily due to lower maintenance costs, a lower effective income tax rate and higher earnings from EEI.

A comparison of KU's revenues for the three months ended June 30, 2006, with the three months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$17
Environmental cost recovery surcharge	3
Variation in sales volumes and other	(7)
Total retail sales	13
Other	(2)
Total	$11

Electric revenues increased $11 million (4%) in 2006 primarily due to:

- Increased fuel costs billed to customers through the fuel adjustment clause ($17 million) due to higher costs of coal and natural gas
- Increased environmental cost recovery ($3 million) due to higher ECR billing rates
- Decreased retail electric volumes delivered ($7 million) resulting from a 17% decrease in cooling degree days in the second quarter of 2006 compared to the same period in 2005 and an 19% decrease from the 20-year average

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

Fuel for electric generation increased $16 million (19%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($9 million) due to higher fuel prices
- Increased generation ($7 million) largely due to higher unit availability

Power purchased decreased $6 million (12%) in 2006 primarily due to:
- Decreased volumes purchased ($8 million) largely due to higher unit availability and decreased retail demand
- Increased unit cost of purchases ($2 million) due to higher market prices

Other operation and maintenance expenses decreased $5 million (7%) in 2006 primarily due to:
- Decreased maintenance costs ($3 million) largely due to an outage last year at Brown Unit 3
- Decreased other power supply costs ($2 million) related to lower MISO Day 2 expenses

Other (income) - net increased $3 million (150%) primarily due to increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006.

Interest expense increased $1 million (13%) in 2006 primarily due to increased borrowing from Fidelia.

A comparison of the KU effective income tax rate for the three months ended June 30, 2006 and 2005 follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	5.0
Amortization of investment tax credits	(0.8)	(1.4)
EEI dividend	(6.1)	-
Other differences	(1.9)	(2.9)
Effective income tax rate	30.6%	35.7%

The EEI dividend in the second quarter of 2006 reflects a tax benefit associated with the receipt of dividends from KU's investment in EEI. The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

Six Months Ended June 30, 2006, Compared to
Six Months Ended June 30, 2005

LG&E Results:

LG&E's net income decreased $12 million (19%) for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005, primarily due to lower electricity and natural gas retail and wholesale sales volumes, higher maintenance costs and higher interest expense.

A comparison of LG&E's revenues for the six months ended June 30, 2006, with the six months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$15	$73
Merger surcredit	1	-
Weather normalization	-	2
Variation in sales volume and other	(8)	(31)
Total retail sales	8	44
Wholesale sales	(32)	(16)
Other	2	1
Total	$(22)	$29

Electric revenues decreased $22 million (5%) in 2006 primarily due to:
- Decreased wholesale revenues ($32 million) largely due to 10% lower volumes
- Decreased retail electric volumes delivered ($8 million) resulting from a 10% decrease in cooling degree days in the first six months of 2006 compared to the same period in 2005 and an 12% decrease from the 20-year average
- Increased fuel costs billed to customers through the fuel adjustment clause ($15 million) due to higher costs of coal and natural gas
- Increased miscellaneous revenues ($2 million)

Gas revenues increased $29 million (13%) in 2006 primarily due to:
- Increased gas supply costs billed to customers through the gas supply adjustment ($73 million) due to higher natural gas costs
- Increased weather normalization revenues ($2 million) due to warmer weather
- Decreased retail gas volumes delivered ($31 million) resulting from a 10% decrease in heating degree days in the first six months of 2006 compared to the same period in 2005 and an 12% decrease from the 20-year average

- Decreased wholesale revenues ($16 million) as a result of 7% lower volumes due to lower demand from wholesale customers

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $6 million (5%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($13 million) due to higher fuel prices
- Decreased generation ($5 million) due to lower wholesale and retail sales volumes

Power purchased decreased $13 million (19%) in 2006 primarily due to:
- Decreased volumes purchased ($22 million) due to lower wholesale and retail sales
- Increased unit cost of purchases ($9 million) due to higher market prices

Gas supply expenses increased $29 million (17%) in 2006 primarily due to:

- Increased unit cost of natural gas purchased ($69 million)
- Decreased volumes of natural gas delivered into the distribution system ($40 million) due to milder weather

Other operation and maintenance expenses increased $4 million (3%) in 2006 primarily due to:
- Increased steam maintenance ($3 million) largely due to the outage at Mill Creek Unit 4
- Increased distribution maintenance ($2 million) due to higher storm restoration costs

Interest expense increased $2 million (11%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($3 million)
- Increased interest on tax deficiencies ($1 million)
- Increased interest rates on money pool borrowing ($1 million)
- Decreased interest on the swaps ($2 million)
- Decreased interest due to refinancing fixed rate debt with variable rate debt ($1 million)

The weighted average interest rate on variable-rate bonds for the six months ended June 30, 2006, was 3.33%, compared to 2.27% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the six months ended
June 30, 2006 and 2005 follows:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.6	4.8
Amortization of investment tax credits	(2.7)	(2.2)
Other differences	(2.6)	(2.2)
Effective income tax rate	33.3%	35.4%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The
change in amortization of investment tax credits and other differences is
largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $5 million (9%) for the six months ended June 30,
2006, as compared to the six months ended June 30, 2005, primarily due
higher earnings from EEI and a lower effective income tax rate, which is
partially offset by higher transmission costs and higher interest charges.

A comparison of KU's revenues for the six months ended June 30, 2006, with
the six months ended June 30, 2005, reflects increases and (decreases)
which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$36
Environmental cost recovery surcharge	3
Merger surcredit	1
Rate and rate structure	2
Variation in sales volume and other	(6)
Total retail sales	36
Wholesale sales	(18)
Other	(1)
Total	$17

Electric revenues increased $17 million (3%) in 2006 primarily due to:
- Increased fuel costs billed to customers through the fuel adjustment
  clause ($36 million) due to higher costs of coal and natural gas
- *Increased environmental cost recovery ($3 million) due to higher* ECR

billing rates
- Increased Virginia revenues due to a rate change for increased fuel recovery ($2 million)
- Decreased wholesale sales ($18 million) largely due to 5% lower volumes
- Decreased retail electric volumes delivered ($7 million) resulting from a 9% decrease in cooling degree days in the first six months of 2006 compared to the same period in 2005 and an 11% decrease from the 20-year average

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

Fuel for electric generation increased $23 million (13%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($20 million) due to higher fuel prices
- Increased generation ($3 million) largely due to higher unit availability

Power purchased decreased $6 million (6%) in 2006 primarily due to:
- Decreased volumes purchased ($18 million) largely due to higher unit availability and decreased retail demand
- Increased unit cost of purchases ($12 million) due to higher market prices

Other operation and maintenance expenses increased $7 million (6%) in 2006 primarily due to:
- Increased other power supply ($5 million) largely due to MISO Day 2
- Increased transmission expense ($3 million) largely due to MISO Day 1

Other (income) - net increased $10 million (333%) primarily due to increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006.

Interest expense increased $4 million (29%) in 2006 primarily due to:
- Increased borrowing from Fidelia ($2 million)
- Increased borrowing and increased interest rates on money pool debt ($2 million)

A comparison of the KU effective income tax rate for the six months ended June 30, 2006 and 2005 follows:

	Six Months	Six
Months		
	Ended	Ended

	June 30, 2006	June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	4.7
Amortization of investment tax credits	(0.6)	(0.9)
EEI dividend	(5.1)	-
Other differences	(1.1)	(0.6)
Effective income tax rate	32.6%	38.2%

The EEI dividend for the six months ended June 30, 2006, reflects a tax benefit associated with the receipt of dividends from KU's investment in EEI.

Liquidity and Capital Resources

The Companies' needs for capital funds are largely related to the construction of plant and equipment necessary to meet the needs of electric and gas utility customers, in addition to debt service requirements and dividend payments. Internal and external lines of credit are maintained to fund short-term capital requirements. The Companies believe that such sources of funds will be sufficient to meet the needs of the business in the foreseeable future.

At June 30, 2006, the Companies were in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds that are subject to tender for purchase at the option of the holder as current portion of long-term debt. The Companies expect to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Construction expenditures for the six months ended June 30, 2006 amounted to $66 million for LG&E and $121 million for KU. At LG&E, capital expenditures included infrastructure for new customers, gas main replacements/extensions and capital repairs to Mill Creek Unit 4. At KU, capital expenditures included construction of FGD and other environmental equipment at the Ghent generating station and infrastructure for new customers.

LG&E's cash balance decreased $2 million during the six months ended June 30, 2006, largely resulting from repayments of debt and the payment of dividends. KU's cash balance decreased $2 million during the six months ended June 30, 2006, primarily due to increased capital expenditures.

Variations in accounts receivable, inventories and accounts payable are generally not significant indicators of the Companies' liquidity. Such variations are primarily attributable to seasonal fluctuations in weather,
which have a direct effect on sales of electricity and natural gas. The decreases in LG&E's accounts receivable and natural gas stored underground
relate primarily to seasonal uses of natural gas.

For information regarding the Companies' use of interest rate swaps to hedge underlying variable-rate (LG&E) and fixed-rate (KU) debt obligations,
see Note 3 of the Notes to Financial Statements.

See Note 5 of the Notes to Financial Statements for information *regarding*
the Companies' long-term and short-term debt including: accounting treatment of bonds permitting tender for purchase at the option of the holder, re-negotiation of revolving credit lines, intercompany debt transactions and the issuance and redemption of financial instruments during the year.

Security ratings as of June 30, 2006, were:

	LG&E		KU	
	Moody's	S&P	Moody's	S&P
First mortgage bonds	A1	A-	A1	A
Preferred stock	Baa1	BBB-	Baa1	BBB-
Commercial paper	P-1	A-2	P-1	A-2

These ratings reflect the views of Moody's and S&P. A security rating is
not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

LG&E made a discretionary contribution to the pension plan of $18 million
in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Contingencies

For a description of significant contingencies that may affect the Companies, reference is made to Part I, Item 3, Legal Proceedings in the
Companies' Annual Reports on Form 10-K for the year ended December 31, 2005; to Part I - Item 1 and Part II - Item 1, Legal Proceedings in the Companies' Quarterly Report on Form 10-Q for the period ended March 31, 2006; and to Notes 2 and 6 of the Notes to Financial Statements in Part I
- Item 1, and Part II - Item 1, Legal Proceedings herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Companies use interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk and earnings volatility and is not speculative in nature. Management has designated all of the Companies' interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. To the extent a financial instrument or the underlying item being hedged is prematurely terminated or the hedge becomes ineffective, the resulting gains or losses are reclassified from comprehensive income to net income. Financial instruments designated as fair value hedges are periodically marked to market with the resulting gains and losses recorded directly into net income to correspond with income or expense recognized from changes in market value of the items being hedged.

The potential change in interest expense associated with a 1% change in base interest rates of the Companies' unswapped variable debt is estimated at $4 million each at June 30, 2006. The Companies' exposure to floating interest rates did not materially change during the first six months of 2006.

The potential loss in fair value of LG&E's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at approximately $17 million as of June 30, 2006. The potential loss in fair value of KU's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at less than $1 million as of June 30, 2006. These estimates are derived from third-party valuations. Changes in the market values of these swaps, if held to maturity, will have no effect on LG&E's or KU's net income or cash flow.

Pension Risk

The Companies' costs of providing defined-benefit pension retirement plans is dependent upon a number of factors, such as the rates of return on plan assets, discount rate and contributions made to the plan. The Companies have recognized an additional minimum liability as prescribed by SFAS No. 87, Employers' Accounting for Pensions because the accumulated benefit obligation exceeds the fair value of their plans' assets. The liabilities were recorded as a reduction to comprehensive income, and did not affect net income. The amount of the liability depends upon the discount rate, the asset returns and contributions made by the Companies to the plans. If the fair value of the plans' assets exceeds the accumulated benefit obligation, the recorded liabilities will be reduced and comprehensive income will be restored in the balance sheet.

A 1% increase or decrease in the assumed discount rate could have an approximate $49 million positive or negative impact to the accumulated benefit obligation of LG&E. A 1% increase or decrease in the assumed discount rate could have an approximate $33 million positive or negative impact to the accumulated benefit obligation of KU.

LG&E made a discretionary contribution to the pension plan for $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Energy & Risk Management Activities

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Wholesale sales of excess asset capacity are treated as normal sales under SFAS No. 133, as amended, and are not marked to market.

Since the inception of the MISO Day 2 market in April 2005, the Companies have been eligible to receive FTRs from the MISO. FTRs are assigned by the MISO to market participants for a twelve-month period of time beginning June 1, 2006, for off-peak and peak periods based on each market participant's share of generation. FTRs are utilized to manage price risk associated with transmission congestion. The value of FTRs is determined by the transmission congestion charges that arise when the transmission grid is congested in the day-ahead market. FTRs are obtained through an allocation from the MISO at zero cost, however, they can also be bought and sold. FTRs are derivatives and their fair value is insignificant due to the lack of liquidity in the forward market.

The fair values of the Companies' energy trading and risk management contracts as of June 30, 2006 were each approximately $2 million. The fair

values at June 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and
volatility assumptions were made during all periods. The outstanding mark-
to-market value is sensitive to changes in prices, price volatilities and
interest rates. The Companies estimate that a movement in prices of $1 and
a change in interest and volatilities of 1% would result in a change in the
mark-to-market value of less than $1 million. All contracts outstanding at
June 30, 2006, have a maturity of less than one year and are valued using
prices actively quoted for proposed or executed transactions or quoted by
brokers.

The Companies maintain policies intended to minimize credit risk and revalue credit exposures daily to monitor compliance with those policies.
As of June 30, 2006, 100% of the trading and risk management commitments
were with counterparties rated BBB-/Baa3 equivalent or better.

Item 4. Controls and Procedures

The Companies maintain a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Companies in reports they file or submit under the Securities Exchange Act
of 1934 is recorded, processed, summarized and reported, within the time
periods specified in the Securities and Exchange Commission rules and forms. The Companies conducted an evaluation of such controls and procedures under the supervision and with the participation of the Companies' management, including the Chairman, President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based
upon that evaluation, the CEO and CFO have concluded that the Companies'
disclosure controls and procedures are effective as of the end of the period covered by this report.

The Companies are not accelerated filers under the Sarbanes-Oxley Act of
2002 and associated rules (the "Act") and consequently anticipate issuing
Management's Report on Internal Control over Financial Reporting pursuant
to Section 404 of the Act in their first periodic report covering the fiscal year ended December 31, 2007 as permitted by SEC rulemaking.

In preparation for required reporting under Section 404 of the Act, the

Companies are conducting a thorough review of their internal controls over
financial reporting, including disclosure controls and procedures. Based
on this review, the Companies have made internal controls enhancements and
will continue to make future enhancements to their internal control over
financial reporting. There has been no change in the Companies' internal
control over financial reporting that occurred during the fiscal quarter
ended June 30, 2006, that has materially affected, or is reasonably likely
to materially affect, the Companies' internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

For a description of the significant legal proceedings involving the Companies, reference is made to the information under the following items and captions of the Companies' respective combined Annual Report on Form 10-K for the year ended December 31, 2005: Item 1, Business; Item 3, Legal Proceedings; Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Item 8, Financial Statements and Supplementary Data in Notes 3 and 10. Reference is also made to the matters described in Notes 2 and 6 of Part 1, Item 1 of the Companies' Quarterly Report on Form 10-Q for the three months ended March 31, 2006, and Notes 2 and 6 of the Notes to Financial Statements in Part I, Item 1 of this 10-Q. Except as described herein, to date, the proceedings reported in the Companies' respective combined Annual Report on Form 10-K have not changed materially.

Other

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

Item 1A. Risk Factors.

LG&E and KU currently anticipate withdrawal from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on costs or revenues. As required by the FERC, in connection with their exit, the Companies have engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. The Companies will save certain MISO membership costs and charges, but will incur an exit fee and fees related to the new transmission service vendors.
The Companies believe that, over time, the benefits and savings from an exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

See Note 2 of LG&E's and KU's Notes to Financial Statements in Part I, Item 1 of this 10-Q.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Applicable to Form 10-Q of LG&E	KU	Description
4.1		X	Loan Agreement dated June 23, 2006 between Kentucky Utilities Company and Fidelia Corporation. [Filed as Exhibit 4.1 to KU's Current Report on Form 8-K dated June 23, 2006 and incorporated by reference herein.]
4.2		X	Copy of Promissory Note from KU to Fidelia Corporation, dated as of June 23, 2006. [Filed as Exhibit 4.2 to KU's Current Report on Form 8-K dated June 23, 2006 and incorporated by reference herein.]
31.1	X		Certification of Chairman of the Board, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	X		Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 X Certification of Chairman of the Board, President and Chief
Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32 X X Certification pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002

Certain instruments defining the rights of holders of certain long-term debt of LG&E or KU have not been filed with the SEC but will be furnished to the SEC upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Louisville Gas and Electric Company
Registrant

Date: August 14, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his capacities as Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kentucky Utilities Company
Registrant

Date: August 14, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his capacities as Principal Financial Officer

and Principal
Accounting Officer)

SEC Form 8-K – April 18, 2007

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 18, 2007

Louisville Gas and Electric Company
(Exact name of registrant as specified in its charter)

Kentucky (State or other jurisdiction of incorporation)	1-2893 (Commission File Number)	61-0264150 (IRS Employer Identification No.)

220 West Main Street, P.O. Box 32010, Louisville, Kentucky (Address of principal executive offices)	40232 *(Zip Code)*

Registrant's telephone number, including area code: (502) 627-2000

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

:tem 2.03. Creation of a Direct Financial Obligation or an Obligation under an off-balance sheet arrangement of a registrant.

(i) On April 13, 2007, Louisville Gas and Electric Company ("LG&E" or the "Company") completed financing transactions involving the ssuance of $138 million in long-term indebtedness The indebtedness is represented by (i) a $70 million, 30-year, unsecured loan from Fidelia ˈ ırporation ("Fidelia"), an indirect subsidiary of E ON AG and an affiliate of KU, which will carry a 5 98% rate of interest and (ii) a $68 llion, 24-year, unsecured loan from Fidelia, which will carry a 5 93% rate of interest The loan proceeds were used to fund the preferred ;tock redemption discussed below and to repay certain short-term loans which initially funded a pension contribution made by LG&E during the 'irst quarter 2007

As part of the transaction, LG&E entered into Loan Agreements with Fidelia, under which agreements the Company has agreed to repay he loans by making principal and semi-annual interest payments as and when due with respect to the indebtedness

The Loan Agreements contain standard representations, covenants and events of default for arrangements of this type, including ıcceleration of indebtedness upon certain events of default. Events of default under the Loan Agreements or other transaction documents nclude a failure to punctually make payments associated with the loan when due; certain bankruptcy or insolvency-related conditions relating tc he Company, and departure of the Company from the E ON group

(ii) On April 16, 2007, LG&E and Fidelia amended the terms of two existing loan arrangements in place between the parties LG&E :ntered into an amended loan agreement and replacement notes with Fidelia relating to the following existing LG&E borrowings: (i) $25 nillion loan due January 2012 and (ii) $100 million loan due April 2013

The amended documents terminate a subordinated mortgage lien previously granted by LG&E to Fidelia as security for the existing loans. Γhe original maturity and interest rates and payment schedules of the loans were not changed

Item 8.01. Other Events.

On April 16, 2007, as previously announced, LG&E redeemed all outstanding shares of its three existing series of preferred stock for ıpproximately $92 million LG&E paid redemption prices of $28 per share for the 5% Series Cumulative Preferred, $100 per share for the $5 875 Series Cumulative Preferred and $100 per share for the Auction Rate, Series A Cumulative Preferred The redemptions were pursuant tı :xisting provisions applicable to each series

ˈ'em 9.01 Financial Statements and Exhibits

Exhibits:

4.1 Loan Agreement and Promissory Note, each dated April 13, 2007, between LG&E and Fidelia

1.2 Loan Agreement and Promissory Note, each dated April 13, 2007, between LG&E and Fidelia.

1.3 Amendment, dated April 16, 2007, to Loan and Security Agreement, dated August 15, 2003 and two Amended and Restated Notes, each dated April 16, 2007, among LG&E and Fidelia.

SIGNATURES

ʾursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the ındersigned hereunto duly authorized

LOUISVILLE GAS AND ELECTRIC COMPANY

Dated: April 18, 2007

BY: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

SEC Form 8-K – April 11, 2007

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 11, 2007**

Louisville Gas and Electric Company
(Exact name of registrant as specified in its charter)

Kentucky	**1-2893**	**61-0264150**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

220 West Main Street, P.O. Box 32010, Louisville, Kentucky	**40232**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(502) 627-2000**

(Former name or former address, if changed since last report)

:heck the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of he following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

tem 8.01 Other Events.

ı connection with an offering of long-term tax-exempt debt to be issued by a local governmental entity, Louisville Gas and Electric Company 'LG&E" or the "Company") has prepared a Preliminary Official Statement for distribution to potential purchasers. The debt to be offered in · tax-exempt transaction will not be registered under the Securities Act of 1933, as amended, in reliance on an exemption from registration. excerpt from the Preliminary Official Statement containing updated regulatory disclosure is set forth below:

.G&E has commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas perations at its Doe Run, Kentucky storage field. The Doe Run field has been in use since the 1940's and its operations include limited ıcilities in Indiana. The review relates, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and other tatutes and whether additional regulatory authorizations or operational steps are required or advisable. LG&E has had preliminary ommunications with the Federal Energy Regulatory Commission ("FERC") and relevant regulatory agencies in Kentucky and Indiana and is ontinuing to coordinate with such entities. The Company anticipates completing its review during mid-2007 and will consider ppropriate, follow-up regulatory or other actions or proceedings, if any, thereafter. LG&E believes that no sanctions are warranted but is nable to estimate the ultimate outcome of the matter, including whether FERC might seek to impose any fines or penalties under the Energy 'olicy Act of 2005 or otherwise.

'tatements made in this report that state the Company's or management's intentions, expectations or predictions of the future are forward-ɔoking statements. The Company's actual results could differ materially from those projected in the forward-looking statements, and there car e no assurance that estimates of future results will be achieved. The Company's SEC filings contain additional information concerning factor: 'hat could cause actual results to differ materially from those in the forward-looking statements.

SIGNATURES

'ursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the ındersigned hereunto duly authorized

LOUISVILLE GAS AND ELECTRIC COMPANY

)ated: April 11, 2007

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

SEC Form 8-K – March 15, 2007

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **March 14, 2007**

Louisville Gas and Electric Company
(Exact name of registrant as specified in its charter)

Kentucky	**1-2893**	**61-0264150**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

220 West Main Street, **P.O. Box 32010, Louisville, Kentucky**	**40232**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(502) 627-2000**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On March 14, 2007, Louisville Gas and Electric Company (the "Company") announced its intent to redeem the shares of its three existing series of preferred stock having an aggregate book value of approximately $92 million, effective April 16, 2007, pursuant to existing redemption provisions applicable to both series.

The Company will redeem on April 16, 2007 (the "Redemption Date") all outstanding shares of its 5% Cumulative Preferred Stock, par value $25 per share (CUSIP 546676206); $5.875 cumulative preferred stock, stated value $100 per share (CUSIP 546676800); and Auction Rate, Series A, Preferred Stock, stated value $100 per share (CUSIP 546676701) at redemption prices of $28.00 per share, $100.00 per share, and $100.00 per share, respectively, plus payment of amounts equal to accrued and unpaid dividends, if any, to the Redemption Date. Dividends on the shares of 5%, the $5.875 and the Auction Rate, Series A Preferred Stocks shall cease to accumulate on the Redemption Date. No further dividends will be paid or will accrue on such preferred stock after the Redemption Date.

A press release of the Company regarding the transaction is attached as Exhibit 99.01 hereto.

Statements made in this report that state the Company's or management's intentions, expectations or predictions of the future are forward-looking statements. The Company's actual results could differ materially from those projected in the forward-looking statements, and there can be no assurance that estimates of future results will be achieved. The Company's' SEC filings contain additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Item 9.01 Financial Statements and Exhibits

Exhibits:

99.01 Press Release.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Louisville Gas and Electric Company

Dated: March 14, 2007

By::/s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

SEC Form 8-K – October 13, 2006

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **October 13, 2006**

Louisville Gas and Electric Company
(Exact name of registrant as specified in its charter)

Kentucky	**1-2893**	**61-0264150**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

220 West Main Street, P.O. Box 32010, Louisville, Kentucky	**40232**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(502) 627-2000**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

tem 8.01 Other Events.

On October 13, 2006, Louisville Gas and Electric Company (the "Company") submitted an application to the Kentucky Public Service Commission (the "Kentucky Commission") seeking authorization for various potential financial transactions. Among other matters, the application includes a request for approval of certain funding arrangements which could provide a source of funds for the possible redemption the Company's three existing series of preferred stock.

The matters contained in the Kentucky Commission application, plus the possible redemption, remain subject to certain conditions or developments, such as the approval of the Kentucky Commission, future financial, economic or other market conditions, and further corporate approvals. The Company is currently unable to estimate the timing for completion, if any, of the various transactions. However, subject to the described conditions and developments, among others, it is possible that the various transactions, should they ultimately proceed, could be completed during the fourth quarter of 2006 or the first quarter of 2007.

The Company currently has issued and outstanding the following series of preferred stock: 860,287 shares of 5% cumulative preferred stock par value $25 per share), 200,000 shares of $5.875 cumulative preferred stock (without par value) and 500,000 shares of auction rate, series A, cumulative preferred stock (without par value). A possible redemption of such preferred stock, should it occur, would be conducted in accordance with existing redemption provisions in the Company's Amended and Restated Articles of Incorporation applicable to each series of preferred stock.

Statements made in this report that state the Company's or management's intentions, expectations or predictions of the future are forward looking statements. The Company's actual results could differ materially from those projected in the forward-looking statements, and there can be no assurance that estimates of future results will be achieved. The Company's SEC filings contain additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY

Dated: October 16, 2006

BY: /s/ John R. McCall
John R. McCall
Executive Vice President, General Counsel and Corporate Secretary

SEC Form 8-K – July 7, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **July 7, 2006**

Louisville Gas and Electric Company

(Exact name of registrant as specified in its charter)

Kentucky	**1-2893**	**61-0264150**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

220 West Main Street, P.O. Box 32010, Louisville, Kentucky	**40232**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(502) 627-2000**

(Former name or former address, if changed since last report)

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	**1-3464**	**61-0247570**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Quality Street, Lexington, Kentucky	**40507**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(857) 255-2100**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240 14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This combined Form 8-K is separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company Information contained herein relating to any individual registrant is filed by such registrant on its own behalf and each registrant makes no representation as to information relating to the other registrant

Item 8.01 Other Events.

As previously disclosed, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and collectively with LG&E, the "Companies") have been involved in proceedings before the Kentucky Public Service Commission ("KPSC") and the Federal Energy Regulatory Commission ("FERC") seeking authority to withdraw from the Midwest Independent Transmission System Operator, Inc. ("MISO"). The Companies now estimate that they may complete their exit from MISO during late summer 2006. During spring and early summer 2006, the Companies received a number of regulatory rulings concerning aspects of the MISO exit process which have resolved or advanced certain matters involved in the pending withdrawal process.

In May 2006, the KPSC issued an order in its proceeding analyzing the costs versus benefits of MISO membership to the Companies, which order approved the request of LG&E and KU to withdraw from MISO. The order authorized the Companies, upon a MISO exit, to establish a regulatory asset for an exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues which may be collected via current base rates, as a result of the inclusion of amounts associated with certain MISO Schedule 10 charges. In July 2006, the KPSC issued an order approving the Companies' contractual arrangements with Tennessee Valley Authority ("TVA") and Southwest Power Pool, Inc. ("SPP") to provide services to the Companies as reliability coordinator and independent transmission organization, respectively, upon a withdrawal from MISO. This order was subject to certain conditions based upon a satisfactory outcome of pending FERC proceedings involving the Companies' market-based rate authority. In July 2006, the KPSC issued further orders denying MISO's request for a rehearing regarding the May 2006 order and denying MISO's request for intervenor status in the proceeding concerning the Companies' TVA/SPP arrangements.

In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' proposal to address certain market power issues the FERC had claimed would arise upon an exit from MISO. In particular, LG&E and KU received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Upon a MISO exit, the relevant control areas would be LG&E's and KU's joint control area, as well as the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky (the latter due to a long-term contractual arrangement between BREC and Western Kentucky Energy Corp., an affiliate of the Companies.) In July 2006, the FERC issued a further decision accepting, in substantial part, certain of the Companies' steps, including compliance and other filings, which constituted conditions to the FERC's March 2006 order conditionally approving their exit from MISO. There remain certain further conditions that must be satisfied under the FERC's exit orders, which conditions the Companies currently anticipate they can accomplish. Finally, also in July 2006, the FERC issued an order denying MISO's request for a rehearing regarding the FERC's March 2006 order.

The Companies have currently tendered and not withdrawn a contractual notice to MISO providing for a withdrawal date of September 1, 2006. On or about the date of a completed exit from MISO, and following initial calculation and invoicing from MISO, the Companies would pay an exit fee to MISO in an amount of up to approximately $41 million (allocated approximately $16 million for LG&E and $25 million for KU.) The ultimate amount would be determined based upon the actual date of exit and, following payment, is subject to confirmation, correction and true-up, as agreed between the Companies and MISO. Pursuant to the May 2006 KPSC order, concurrently with payment of a MISO exit fee, the Companies will establish a regulatory asset relating to such fee.

While LG&E and KU believe they can reasonably achieve the remaining conditions imposed by the FERC relating to MISO withdrawal by he late summer, including possibly as early as September 1, 2006, the actual timing or occurrence of withdrawal cannot be assured.

Statements made in this report that state the Companies' or management's intentions, expectations or predictions of the future are forward-looking statements. The Companies' actual results could differ materially from those projected in the forward-looking statements, and here can be no assurance that estimates of future results will be achieved. The Companies' SEC filings contain additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements

SIGNATURES

rsuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the dersigned hereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY

Dated: July 12, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

KENTUCKY UTILITIES COMPANY

Dated: July 12, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

Report of Certain Material Changes
January 2008 – July 2008

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JUL 08 2008

PUBLIC SERVICE COMMISSION

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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Lonnie E. Bellar
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T 502-627-4830
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lonnie.bellar@eon-us.com

July 7, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to June 2008, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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an e·on company

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
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June 6, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes*** **– Case No. 2006-00445**

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to May 2008, LG&E converted its Jefferson County 2000 Series A tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

in e·on company

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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MAY 15 2008

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May 15, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to April 2008, LG&E converted its Louisville Metro 2007 Series A and Series B tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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APR 07 2008
PUBLIC SERVICE COMMISSION

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lonnie.bellar@eon-us.com

April 6, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to March 2008, LG&E converted its Louisville Metro 2005 Series A tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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MAR 14 2008

PUBLIC SERVICE COMMISSION

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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

March 14, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to February 2008, LG&E believes it would have filed a Form 8-K for the following events:

- LG&E's planned conversion of three pollution control bond series to a weekly interest rate mode (the Louisville/Jefferson County Metro Government 2005 Series A, 2007 Series A and 2007 Series B bonds, respectively) and interim repurchasing of such.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

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FEB 06 2008

PUBLIC SERVICE COMMISSION

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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

February 6, 2008

Re: *Louisville Gas and Electric Company – Report of Certain Material Changes* – **Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to January 2008, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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JAN 08 2008

PUBLIC SERVICE
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Ms. Elizabeth O'Donnell
Executive Director
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211 Sower Boulevard
Frankfort, Kentucky 40601

January 8, 2008

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes*** **– Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. 3

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to December 2007, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

Report of Certain Material Changes
June 2007 – December 2007

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COMMISSION

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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

December 6, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes*** **– Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to November 2007, LG&E believes it would have filed a Form 8-K for the following events:

- LG&E entered into a loan agreement and related documentation in connection with borrowing $47 million from Fidelia Corporation, an affiliate.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

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Ms. Elizabeth O'Donnell
Executive Director
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November 6, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to October 2007, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

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OCT 05 2007

PUBLIC SERVICE
COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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October 5, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes*** **– Case No. 2006-00445**

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 31, 2007, in the aforementioned case, Louisville Gas and Electric Company ("LG&E") hereby files a report of material changes that LG&E would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as its report. With respect to September 2007, LG&E believes it would have filed a Form 8-K for the following event:

- Formal elimination of SEC-registrant/Sarbanes-Oxley-based Senior Financial Officer Code of Ethics.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

SN

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Ms. Elizabeth O'Donnell
Executive Director
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September 10, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. O'Donnell:

In its order of January 31, 2007 issued in the above-referenced proceeding, the Commission directed Louisville Gas and Electric Company ("LG&E") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as their report. With respect to August 2007, LG&E believes there are no reportable events.

Although John R. McCall will be the officer responsible for the timely filing of these materials, I will become the primary point of contact for all inquires concerning these and other state regulatory issues.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

LG&E

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Ms. Elizabeth O'Donnell
Executive Director
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AUG 07 2007

PUBLIC SERVICE COMMISSION

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Kent W. Blake
Vice President
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kent.blake@eon-us.com

August 7, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes*** **– Case No. 2006-00445**

Dear Ms. O'Donnell:

In its order of January 31, 2007 issued in the above-referenced proceeding, the Commission directed Louisville Gas and Electric Company ("LG&E") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with this Commission order, LG&E is submitting this letter as their report. With respect to July 2007, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Kent W Blake

Kent W. Blake

LG&E®
e·on company

C4 R4

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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JUL 06 2007
PUBLIC SERVICE COMMISSION

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kent.blake@eon-us.com

July 6, 2007

Re: ***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. O'Donnell:

In its order of January 31, 2007 issued in the above-referenced proceeding, the Commission directed Louisville Gas and Electric Company ("LG&E") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with these Commission orders, LG&E is submitting this letter as their report. With respect to the month of June 2007, LG&E believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Kent W Blake

Kent W. Blake

e·on | U.S.

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JUN 22 2007

PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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Kent W. Blake
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June 22, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390
Louisville Gas and Electric Company – Report of Certain Material Changes **– Case No. 2006-00445**

Dear Ms. O'Donnell:

In the above-referenced cases, Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E" and collectively with KU, the "Companies"), respectively received Commission authority, pursuant to its orders in the above-referenced cases to undertake certain financial transactions which would achieve, in part, the cessation of the Companies' periodic reporting obligations under the Securities Exchange Act of 1934 (the "SEC Reports"). Consistent with the orders and the proceedings in the cases referenced-above, the Companies agreed to provide the Commission with revised or replacement reports and disclosures, in lieu of the former SEC Reports.

In connection therewith, the Companies hereby provide this periodic report of certain material changes. This initial report is being submitted for a three month period. Subsequent reports will be filed monthly as indicated by KU in its letter to the Commission dated February 1, 2007. The two events noted below, however, were reported on a timely basis to the Commission as they were the subject of proceedings under KRS 278.300. Via this report, as set forth below, the Companies list or describe, in summary fashion, those events, if any, which occurred during the indicated calendar months which would have occasioned a filing of a Form 8-K with the Securities and Exchange Commission ("SEC"):

- With respect to the month of March 2007, KU believes it would have filed a Form 8-K with respect to the following event:
    - KU entered into a loan agreement and related documentation in connection with borrowing $75 million from Fidelia Corporation, an affiliate, in March 2007

- With respect to the month of April 2007, KU believes there to be no reportable events.

- With respect to the month of May 2007, KU and LG&E believe they would have filed Form 8-K's in connection with the following events:
    - KU entered into loan agreements and related documentation in connection with the following issuances of environmental facilities revenue bonds: (i) $17,875,000 in Carroll County bonds and (ii) $8,927,000 in Trimble County bonds.

Information is given with respect to the first full month and thereafter for which the Companies were not subject to SEC periodic reporting requirements. Please note that KU was subject to such requirements through March 1, 2007 and that LG&E was subject to such requirements through April 27, 2007.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

Kent W. Blake

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

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

Description of Filing Requirement:

If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:

1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;

2. An explanation of how the allocator for the test period was determined; and

3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;

Response:

1. Please see the attached schedule for a description of the amounts charged or allocated to LG&E. The method of allocation is set forth in the attached Cost Allocation Manual.

2. The allocator for the test period was determined using the methodology set forth in the Cost Allocation Manual.

3. The amounts charged, allocated or paid during the test period were reasonable for the following reasons: (i) the Cost Allocation Manual has been filed with the Kentucky Public Service Commission;

(ii) the allocations are made utilizing the methodology set forth in the Cost Allocation Manual; (iii) the allocations are reviewed to assure that they have been made in accordance with the Cost Allocation Manual.

Louisville Gas & Electric Company
Intercompany Charges Billed From:

	Test Year 05/07-04/08	Year Jan. 07 - Dec. 07	Year Jan. 06 - Dec. 06	Year Jan. 05 - Dec. 05
Kentucky Utilities Company	$ 111,906,626	$ 154,160,694	$ 239,528,296	$ 212,139,717
E.ON U.S. Services Inc.	$ 251,986,735	$ 376,258,374	$ 222,873,646	$ 207,287,080

Cost Allocation Manual

E.ON U.S. SERVICES INC.

Cost Allocation Manual

CAM	Cost Allocation Manual
Capital Corp	E.ON U.S. Capital Corp.
EMS	Energy Management System
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Foundation	E.ON U.S. Foundation Inc.
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
PUHCA 2005	Public Utility Holding Company Act of 2005
SA	Service Agreement
SEC	Securities Exchange Commission
SERVCO	E.ON U.S. Services Inc.
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. Services Inc.
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E.ON U.S. Services Inc.
Cost Allocation Manual

I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that SERVCO will follow in performing certain services for affiliate companies. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that SERVCO costs are fully segregated, and fairly and equitably allocated among the affiliate companies. SERVCO was authorized to conduct business as a service company for E.ON U.S. (formerly LG&E Energy LLC) and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001.

Periodic changes to the CAM may be necessary due to future management decisions, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. DESCRIPTION OF SERVICES

Service descriptions are organized by SERVCO responsibility areas, or provider departments and include the costs associated with providing that service.

Operations Organization

Retail Business Services

Customer Services – providing call center and customer communication services for both electric and gas customers.

Sales and Marketing Services – providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development, and demand side management.

Economic Development and Major Accounts Services – maintains community development, partnerships with state, regional, and local economic development allies, and customized products and services.

Meter Reading Services – providing meter reading and meter data services.

Meter Operations Services – conducts the testing of meters, completion of all customer requested service/field credit orders and the installation of commercial/industrial meters.

Meter Asset Management Services – maintains inventory, quality and environmental issues, policy and standards, technical support, and logistics.

Cash Remittance Services – provides remittance processing, customer payments, and collection services.

Billing Integrity Services – administering and providing customer billings and credit reviews.

Energy Services

Project Engineering Services – coordinating and managing all major generation construction.

System Laboratory Services – providing system laboratory services to the generating stations.

Generation Engineering Services – providing engineering management for new and existing generation assets.

Combustion Turbines Operations and Maintenance Services

Fuel Procurement Services – procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.

Transmission Strategy and Planning Services

Transmission Protection and Substation Services

Transmission Line Services

Transmission Reliability and Compliance Services

Transmission System Operations Services – providing transmission system control center services.

Transmission EMS Services

Energy Marketing Services

Energy Marketing Services - providing market services to take advantage of the highest excess generation prices in the open market.

Market Forecasting Services – providing management services for financial forecasts of the utility market.

Load Forecasting Services – providing short- and long-term load forecasting services.

Generation Planning Services – providing short- and long-term generation planning services.

Distribution Operations Services

Network Trouble and Dispatch Services – providing dispatch services, reporting outage situations and coordinating restoration.

Mapping and Records Management Services – providing and maintaining the mapping of the electric infrastructure.

Electric Engineering Services – providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and telecommunications systems design and analyses.

Distribution Asset Management Services – leads management and investment decisions regarding distribution assets, including resource allocation, development of uniform standards and procedures, determining performance targets and managing assets information and data.

Substation Construction and Maintenance Services – providing engineering and design services for substation construction, maintenance and operations areas.

Finance Organization

Finance and Corporate Development Services

Budgeting Services - providing services related to managing, coordinating and reporting for the budgeting process.

Financial Planning Services – providing services related to financial planning and forecasting services, investment analysis and investment planning reports.

Financial Systems – providing business support and electronic data processing services for all financial systems including Oracle Applications, PowerPlant and PowerTax.

Corporate Controller Organization Services

Internal Financial and Management Reporting Services – providing internal financial reports including standard and ad hoc management reporting.

External Financial Reporting Services – providing financial reports required or used by various external constituencies such as the FERC, the Kentucky Public Service Commission, the Virginia State Corporation Commission, U.S. Department of Energy (DOE), Internal Revenue Service, Nationally Recognized Municipal Securities Information Repository and financial institutions.

Accounting and Reporting Services – providing to management U.S. Generally Accepted Accounting Principles (GAAP), FERC, and International Financial Reporting Standards (IFRS) accounting research and interpretation and promulgation of accounting and internal control procedures. Perform U.S. GAAP and IFRS general ledger account and project analyses, reconciliations, and consolidation.

Sundry Billing Services – processing miscellaneous and non-standard billings and maintaining and monitoring associated accounts receivable.

Property Accounting Services – maintaining, analyzing and reporting related to continuing property records.

Energy Marketing Accounting Services – performing month-end validation of all power transactions and resolving any discrepancies; preparing invoices and wires; validating bills from other counterparties; preparing accounting, allocation and analysis of off system sales, off system purchases, and intercompany sales and purchases; and preparing various FERC, Fuel Adjustment Clause, Southwest Power Pool, and DOE reports.

Revenue Accounting Services – managing and analyzing internal and external revenue reporting.

Corporate Tax and Payroll Organization Services

Payroll Services – providing payroll services including the managing of payroll systems.

Tax Accounting, Compliance and Reporting Services – preparation of consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts; sales/use tax; E.ON U.S. Foundation returns and supporting roles for business development, special requests and tax legislation.

Tax Planning Services – providing detailed forecasting of foreign, federal and state taxes, as well as, capital based and property tax planning.

Tax – Special Projects Services – providing business or project development, asset dispositions, tax credit studies, review/analysis of proposed tax legislation, etc.

Audit Services – providing independent and objective assurance along with consulting services and internal controls system review.

Information Technology Services

Information Technology - Corporate Functions Services – services associated with corporate functions, not specific companies or work groups, and include groups such as IT Security, IT Finance and Administration, IT Training, and IT Strategy and Planning. This is where corporate standards, security policies and procedures and programs are developed and administered for the corporation.

Information Technology - Administrative Services – services associated with non-project management and administrative support. Total administrative services are proportionally recovered based on the level of charges assigned from the other products and services.

Information Technology - Enhancements – provides discretionary, project-based work done in IT. These projects create new client value or add business value to existing products/services.

Information Technology - Application Services – services associated with each of the existing applications that IT provides to the business, for example Oracle Applications, PeopleSoft, etc. These services incur costs related to application license fees and application support costs.

Information Technology - Client Services – services associated with existing end user tools and related productivity software that the users can identify and interact with, such as a personal computer, telephone, email and file and print services.

Information Technology - Platform Services – services associated with shared computing platforms, databases, network and IT Service Desk.

Corporate Finance and Treasury Services

Cash Management and Investment Services – providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines.

Corporate Finance Services – providing overall finance options including evaluation of new financing vehicles and instruments, analysis of existing financing positions and raising long-term funds for all entities.

Risk Management Services – managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.

Credit Administration Services – providing management of credit risk for wholesale energy sales and major vendors.

Energy Marketing Trading Controls Services – performing daily, weekly, monthly and ad hoc reporting on the trading portfolios related to total exposure, trading limits, and mark-to-market calculations. Other activities include performing an independent valuation and validation of significant transactions, and valuation algorithms, ensuring trading system security and performing trading system enhancements.

Energy Marketing Contract Administration Services – negotiating contracts with counterparties, administrating contracts, and maintaining contracts within the trading systems. Additional activities include assisting various departments with contract disputes and preparing and validating confirmations.

Supply Chain and Logistics Services

Procurement and Major Contracts Services – providing for and administering major contract negotiations, requests for quotes, supplier relations and order placement services.

Strategic Sourcing Services – providing strategic sourcing services such as maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance.

Materials Logistics Services – providing order management, materials handling and logistics, and inventory management services.

Sourcing Support Services – providing order management and general field support services for system policy and maintenance management, developing and monitoring of key performance metrics, and supplying day to day variance and reconciliation reporting services.

Accounts Payable Services – processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis services

General Counsel / Secretary Organization

Compliance, Legal, and Environmental Affairs Services

Compliance and Legal Services – providing various legal and compliance services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and intellectual property law, evaluating legal claims and managing legal fees for outside counsel, as well as, compliance assessment and risk management, code of conduct, anti-fraud, ethics and helpline management, etc.

Environmental Affairs Services – providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, and representing the company in industry groups and before regulatory agencies dealing with environmental issues.

Regulatory Affairs and Government Affairs Management Services

Regulatory Affairs Services – providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.

Government Affairs Management Services – maintaining relationships with government policy makers and conducting lobbying activities.

Corporate Communications and Public Affairs Management Services

Internal Communications Services

External and Brand Communications Services – providing all administrative and management support for external communication services, brand image management and corporate events.

Public Affairs Management Services – providing community relations functions, communicating public information to local organizations and providing oversight and communications to employees.

Administration Organization

Operating Services

Facilities and Building Services – providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.

Security Services – providing security personnel, security and monitoring devices for all affiliated entities.

Production Mail Services – providing production mail services for customer bills and other large customer mailings.

Document Services – providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.

Right-of-Way Services – obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.

Transportation Services

Transportation Services – providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles.

Human Resource Services

Human Resources – Compensation Services – providing services relating to the establishment and oversight of compensation policies for executives and employees.

Human Resources – Benefits Services – providing services relating to the establishment and oversight of benefits policies for employees, including administrative billings to vendors and retiree and survivor services, and maintenance of all personnel records.

Human Resources – Health and Safety Services – providing services relating to the establishment and oversight of health and safety policies for employees.

Human Resources – Organization Development and Training Services – providing training services to improve organizational effectiveness with an emphasis on employee and leadership development, leadership succession planning, and the change management process.

Human Resources – Corporate Headquarters Services – providing services relating to operational and strategic human resources management for corporate staff.

Human Resources – Energy Services – providing services relating to operational and strategic human resources management for Energy Services employees.

Human Resources – Energy Delivery Services – providing services relating to operational and strategic human resources management for Energy Delivery employees.

Technical and Safety Training Services – providing training services on technical and safety matters primarily for the Energy Delivery and Energy Services businesses.

Industrial Relations Management Services – providing communication and oversight for union matters, negotiation of union contracts, and union dispute resolution services.

Executive Management Services – providing executive leadership to the corporation which is comprised of the compensation and benefits of the corporate officers and executive assistants.

III. CORPORATE ORGANIZATION

OVERVIEW

E.ON U.S. and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. E.ON U.S. and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and state utility commissions in Kentucky. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

E.ON U.S. has four direct subsidiaries: LG&E, KU, LEM, and Capital Corp., which includes WKE, E.ON U.S. Natural Gas Trading, Inc. and the Argentine Gas Distribution businesses. E.ON U.S. has an affiliate relationship with E.ON U.S. Foundation due to overseeing all operations of the foundation.

UTILITY OPERATIONS

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, LG&E supplied natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee.

SERVICE COMPANY

SERVCO, a Kentucky corporation is a centralized service company registered under the PUHCA 2005 and is authorized to conduct business as a service company for E.ON U.S. and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. SERVCO is the service company for affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp, and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO provides its services at cost, as permitted under PUHCA 2005.

Development of the SERVCO organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the SERVCO organization. In many respects, employees residing in typical finance, administrative and general, management and other support departments are fully subject to SERVCO organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to SERVCO placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to SERVCO placement.

OTHER BUSINESS OPERATIONS

E.ON U.S. Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

SERVCO also transacts business with E.ON AG and its affiliates on behalf of E.ON U.S.

LEM engages in asset based energy marketing which primarily involves the marketing of power generated by non-utility physical assets controlled by E.ON U.S. and its affiliates.

Capital Corp. is the primary holding company for the E.ON U.S.'s non-utility businesses. Its businesses include:

WKE and affiliates. WKE has a 25-year lease of and operates the generating facilities of Big Rivers Electric Corporation, a power generation cooperative in western Kentucky, and a coal-fired facility owned by the City of Henderson. E.ON U.S. plans to discontinue the operations of WKE.

Argentine Gas Distribution. Through its Argentine Gas Distribution operations, Capital Corp. owns interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Distribuidora de Gas Del Centro S.A. and Distribuidora de Gas Cuyana S.A.).

Natural Gas Trading: E.ON U.S. Natural Gas Trading Inc. engages in non-utility financial and physical trading of natural gas.

IV. TRANSACTIONS WITH AFFILIATES

OVERVIEW

E.ON U.S. formed SERVCO, as a service company to provide goods and services for affiliated companies within the E.ON U.S. system. SERVCO and affiliated companies (or their parent entities) may enter into SAs, which may establish the general terms and conditions for providing those services, including those mentioned in Section II of the CAM.

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At formation certain LG&E, KU and E.ON U.S. employees became employees of SERVCO and such employees continued to provide goods and services to the regulated and non-regulated entities. SERVCO provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO also coordinates the intercompany billings with E.ON and their affiliates which mainly include transactions for expatriate services.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions between SERVCO and the regulated and non-regulated affiliates.

<u>Definitions of Cost</u>

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.
Fair Market Value – The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).
Cost – The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. SERVCO follows the definition of cost defined in PUHCA 2005.

This section separately details the nature and frequency for services provided by SERVCO to affiliated companies, as described below:

Ongoing – Provided on a prearranged, continuous basis (i.e., daily)
Frequent – Provided as requested on a regular basis (i.e., several times per month)
Infrequent – Provided as requested on an irregular basis (i.e., several times per year)

All charges by SERVCO to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

R – Regulated (LG&E and KU)
NR – Non-regulated (Capital Corp., LEM and E.ON U.S. Foundation)
C – Corporate (E.ON and its subsidiaries and affiliates, E.ON U.S. and Capital Corp.)
A – All

TRANSACTIONS PROVIDED BY SERVCO TO AFFILIATES

Product or Service	Frequency	Primary Affiliate
Customer Services	Ongoing	R
Sales and Marketing Services	Frequent	R, NR
Economic Development and Major Accounts Services	Frequent	R
Meter Reading Services	Ongoing	R
Meter Operations Services	Ongoing	R
Meter Asset Management Services	Ongoing	R
Cash Remittance Services	Ongoing	R
Billing Integrity Services	Ongoing	R
Transportation Services	Ongoing	A
Project Engineering Services	Infrequent	R
System Laboratory Services	Ongoing	R
Generation Engineering Services	Ongoing	R
Combustion Turbine Operations and Maintenance Services	Ongoing	R
Fuel Procurement Services	Ongoing	R
Transmission Strategy and Planning Services	Ongoing	R
Transmission Protection and Substation Services	Ongoing	R
Transmission Line Services	Ongoing	R
Transmission Reliability and Compliance Services	Ongoing	R
Transmission System Operations Services	Ongoing	R
Transmission EMS Services	Ongoing	R
Energy Marketing Services	Ongoing	R
Market Forecasting Services	Frequent	R
Load Forecasting Services	Frequent	R
Generation Planning Services	Ongoing	R
Network Trouble and Dispatch Services	Ongoing	R
Mapping and Records Management Services	Ongoing	R
Electric Engineering Services	Ongoing	R
Distribution Asset Management Services	Ongoing	R
Substation Construction and Maintenance Services	Frequent	R
Distribution Management Services	Ongoing	R
Budgeting Services	Frequent	A
Financial Planning Services	Frequent	A
Financial Systems	Ongoing	A
Internal Financial and Management Reporting Services	Frequent	A
External Financial Reporting Services	Frequent	A
Accounting and Reporting Services	Ongoing	C

Sundry Billings Services	Ongoing	A
Property Accounting Services	Ongoing	R
Energy Marketing Accounting Services	Ongoing	A
Revenue Accounting Services	Ongoing	R
Payroll Services	Ongoing	A
Tax Accounting, Compliance and Reporting Services	Ongoing	A
Tax Planning Services	Infrequent	A
Tax – Special Projects Services	Infrequent	A
Audit Services	Ongoing	A
IT Corporate Functions Services	Ongoing	A
IT Administrative Services	Ongoing	A
IT Project Services	Frequent	A
IT Application Services	Ongoing	A
IT Client Services	Ongoing	A
IT Platform Services	Ongoing	A
Cash Management and Investment Services	Ongoing	A
Corporate Finance Services	Ongoing	A
Risk Management Services	Ongoing	A
Credit Administration Services	Ongoing	A
Energy Marketing Trading Controls Services	Ongoing	A
Energy Marketing Contract Administration Services	Ongoing	A
Compliance and Legal Services	Ongoing	A
Environmental Affairs Services	Frequent	R
Regulatory Affairs Services	Ongoing	R
Government Affairs Management Services	Frequent	C
Internal Communications Services	Frequent	C
External and Brand Communications	Frequent	C
Public Affairs Management Services	Frequent	C
Facilities and Building Services	Ongoing	A
Security Services	Ongoing	A
Production Mail Services	Ongoing	R
Document Services	Ongoing	A
Right of Way Services	Ongoing	A
Transportation Services	Ongoing	A
Procurement and Major Contracts Services	Ongoing	A
Strategic Sourcing Services	Ongoing	A
Materials Logistics Services	Ongoing	R
Sourcing Support Services	Ongoing	R
Accounts Payable Services	Ongoing	A
HR Compensation Services	Frequent	A

HR Benefits Services	Frequent	A
HR Health and Safety Services	Frequent	A
HR Organizational Development and Training Services	Frequent	A
HR Corporate Headquarters Services	Frequent	A
HR Energy Services	Frequent	R
HR Energy Delivery Services	Frequent	R
Technical and Safety Training Services	Frequent	R
Industrial Relations Management Services	Frequent	R
Executive Management Services	Ongoing	A

V. COST APPORTIONMENT METHODOLOGY

OVERVIEW

The costs of services provided by SERVCO will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the product or service.

Directly Assignable – Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-SERVCO employees that perform dedicated services to one affiliate, although SERVCO employees also directly report where feasible.

Directly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.

Indirectly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.

Unattributable – Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to Capital Corp.

SERVCO will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The allocation methods used by SERVCO are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, cubic feet of natural gas) of the contract for both coal and natural gas for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Departmental Charge Ratio – A specific SERVCO department ratio based upon various factors such as labor hours, labor dollars, departmental or entity headcount, etc. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of product or service being performed and are documented and monitored by the Budget Coordinators for each department.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies.

Energy Marketing Ratio – Based on the absolute value of equivalent megawatt hours purchased or sold for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Information Systems Chargeback Rates – Rates for services, including but not limited to software, consulting, mainframe and personal computer services, are based on the costs of labor, materials and information services overheads related to the provision of each service. Such rates are applied based on the specific equipment employed and the measured usage of services by client entities.

Non-Fuel Material and Services Expenditures – A ratio based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities.

Number of Customers Ratio – A ratio based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial).

Number of Employees Ratio – A ratio based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate SERVCO employee costs to the proper legal entity.

Number of Meters Ratio – Ratio based on the number or types of meters being utilized by all levels of customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E.

Number of Transactions Ratio – Based on the sum of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. For example, services with regard to Procurement and Major Contracts would define a transaction as the number of contracts negotiated. Services pertaining to Materials Logistics would define the transaction as the number of items ordered, picked and disbursed out of the warehouse. Services pertaining to Accounts Payable would define the transaction as the number of invoices processed. The Regulatory Accounting and Reporting Department is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to SERVCO billings.

Payroll Ratio – Based on the sum of the payroll costs for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Project Ratio – Based on the total costs for any departmental or affiliate project for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Regulatory Mandate Ratios – Based on federal or state mandated percentage allocations based on regulatory proceedings and requirements. These ratios are typically developed in concert with regulatory authorities representing the results of merger or joint asset ownership negotiations and are supported by specific contracts regarding legal entity allocation requirements. Contract terms are maintained by the Regulatory Accounting and Reporting Department.

Retail Revenue Ratio – Based on utility revenues, excluding energy marketing revenues, for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies

Total Assets Ratio – Based on the total assets at year end for the preceding year, the numerator of which is for an operating company or affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. In the event of joint ownership of a specific asset, asset ownership percentages will be utilized to assign costs.

Transportation Resource Management System Chargeback Rate – Rates for use of transportation equipment are based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities.

The following product and service listing details the type of assignments being employed.

Product or Service	***Assignment Method***
Customer Services	Number of Customers Ratio
Sales and Marketing Services	Departmental Charge Ratio
Economic Development and Major Account Services	Departmental Charge Ratio
Meter Reading Services	Departmental Charge Ratio
Meter Operations Services	Number of Meters Ratio
Meter Asset Management Services	Number of Meters Ratio
Cash Remittance Services	Revenue Ratio
Billing Integrity Services	Number of Customers Ratio
Project Engineering Services	Total Assets Ratio
System Laboratory Services	Departmental Charge Ratio
Generation Engineering Services	Departmental Charge Ratio
Combustion Turbine Operations and Maintenance Services	Total Assets Ratio
Fuel Procurement Services	Contract Ratio
Transmission Strategy and Planning Services	Departmental Charge Ratio
Transmission Protection and Substation Services	Departmental Charge Ratio
Transmission Line Services	Departmental Charge Ratio
Transmission Reliability and Compliance Services	Departmental Charge Ratio
Transmission System Operations Services	Departmental Charge Ratio
Transmission EMS Services	Regulatory Mandate Ratios
Regulatory Energy Marketing Services	Regulatory Mandate Ratios
Market Forecasting Services	Departmental Charge Ratio
Load Forecasting Services	Departmental Charge Ratio
Generation Planning Services	Electric Peak Load Ratio
Network Trouble and Dispatch Services	Departmental Charge Ratio
Mapping and Records Management Services	Departmental Charge Ratio

Product or Service	**Assignment Method**
Electric Engineering Services	Departmental Charge Ratio
Distribution Asset Management Services	Total Assets Ratio
Substation Construction and Maintenance Services	Departmental Charge Ratio
Distribution Management Services	Departmental Charge Ratio
Budgeting Services	Revenue, Total Assets and Payroll Ratios
Financial Planning Services	Revenue, Total Assets and Payroll Ratios
Financial Systems	Number of Employees Ratio
Internal Financial and Management Reporting Services	Revenue, Total Assets and Payroll Ratios
External Financial Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounting and Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounts and Projects Services	Revenue, Total Assets and Payroll Ratios
Sundry Billings Services	Revenue, Total Assets and Payroll Ratios
Property Accounting Services	Departmental Charge Ratio
Accounts Payable Services	Number of Transactions Ratio
Energy Marketing Accounting Services	Energy Marketing Ratio
Revenue Accounting Services	Retail Revenue Ratio
Payroll Services	Payroll Ratio
Tax Accounting, Compliance and Reporting Services	Departmental Charge Ratio
Tax Planning Services	Departmental Charge Ratio
Tax – Special Projects Services	Direct Charges Only
Audit Services	Project Ratio
IT Corporate Functions Services	Information Systems Chargeback Rates
IT Administrative Services	Information Systems Chargeback Rates
IT Project Services	Information Systems Chargeback Rates
IT Application Services	Information Systems Chargeback Rates
IT Client Services	Information Systems Chargeback Rates
IT Platform Services	Information Systems Chargeback Rates
Cash Management and Investment Services	Revenue, Total Assets and Payroll Ratios
Corporate Finance Services	Revenue, Total Assets and Payroll Ratios
Risk Management Services	OUTSOURCED – Direct Charges Only
Credit Administration Services	Energy Marketing Ratio
Energy Marketing Trading Controls Services	Energy Marketing Ratio
Energy Marketing Contract Administration Services	Energy Marketing Ratio
Strategic Planning Services	Direct Charges Only
Compliance and Legal Services	Departmental Charge Ratio
Environmental Affairs Services	Departmental Charge Ratio
Regulatory Affairs Services	Revenue Ratio
Government Affairs Management Services	Departmental Charge Ratio

Product or Service	Assignment Method
Internal Communication Services	Departmental Charge Ratio
External and Brand Communication Services	Departmental Charge Ratio
Public Affairs Management Services	Departmental Charge Ratio
Facilities and Building Services	Departmental Charge Ratio
Security Services	Departmental Charge Ratio
Production Mail Services	Number of Customers Ratio
Document Services	Number of Employees Ratio
Right-of-Way Services	Departmental Charge Ratio
Transportation Services	Transportation Resource Management System Chargeback Rates
Procurement and Major Contracts Services	Non-Fuel Material and Services Expenditures Ratio
Strategic Sourcing Services	Non-Fuel Material and Services Expenditures Ratio
Materials Logistics Services	Number of Transactions Ratio
Sourcing Support Services	Non-Fuel Material and Services Expenditures Ratio
Accounts Payable Services	Number of Transactions Ratio
HR Compensation Services	Number of Employees Ratio
HR Benefits Services	Number of Employees Ratio
HR Health and Safety Services	Number of Employees Ratio
HR Organization Development and Training Services	Number of Employees Ratio
HR Corporate Headquarters Services	Number of Employees Ratio
HR Energy Services	Number of Employees Ratio
HR Energy Delivery Services	Number of Employees Ratio
Technical and Safety Training Services	Number of Employees Ratio
Industrial Relations Management Services	Departmental Charge Ratio
Executive Management Services	Departmental Charge Ratio

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

SERVCO utilizes ORACLE or other financial systems in which project/task combinations are set up to equate to products and services. In some cases, departments have set up many project/tasks that map to products and services. In many cases, there is a one to one relationship between the project/task and the product. The ORACLE system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific products reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of SERVCO financial statements. This ensures that:

1. Separation of costs between regulated and non-regulated affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions between SERVCO and affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days Interest charges at a reasonable rate may apply.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

SERVCO has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the type of time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees of a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the Virtual Online Time System (VOLTS) and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the VOLTS, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its budget coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction can be entered into the VOLTS by using the "in and out" function.

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(a)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;

Response:

See attached.

Louisville Gas and Electric Company
Electric Income Statement
12 Months Ending April 30, 2008

		Test Year Electric		Adjustments Inc (Dec)	Adjusted Electric
1	OPERATING REVENUES				
2	Sales to Ultimate Consumers	770,423,196			770,423,196
3	Sales for Resale	156,245,573			156,245,573
4	Brokered	(44,173)			(44,173)
5	Miscellaneous	5,759,920			5,759,920
6	Total Operating Revenues	932,384,516	(1)	(41,959,678)	890,424,838
7					
8	OPERATING EXPENSES				
9	Fuel	317,506,069	(2)	(50,792,206)	266,713,863
10	Power Purchased	81,802,192	(3)	(78,168)	81,724,024
11	Operation and Maintenance	217,172,572	(4)	(3,268,752)	213,903,820
12	Depreciation and Amortization	107,215,505	(5)	16,722,648	123,938,153
13	Taxes Other Than Income Taxes	16,731,827	(6)	1,148,131	17,879,958
14	Income Taxes	46,964,217	(7)	(256,690)	46,707,527
15	Total Utility Operating Expenses	787,392,382		(36,525,037)	750,867,345
16	Net Utility Operating Income	144,992,134		(5,434,641)	139,557,493
17					
18	Net Other Income and Deductions	213,634			213,634
19					
20	Net Interest Charges	45,715,736			45,715,736
21					
22	Net Income	99,490,032		(5,434,641)	94,055,391
23					
24	Preferred Dividends	3,995			3,995
25					
26	Net Income Available for Common	99,486,037		(5,434,641)	94,051,396

(1) See Bellar Exhibit 1 for the following:	
Schedule 1 00	(785,000)
Schedule 1 01	19,476,242
Schedule 1.02	7,375,580
See Conroy Exhibit 1 for the following:	
Schedule 1 03	(50,610,166)
Schedule 1 04	31,805
Schedule 1 05	(10,158,132)
Schedule 1 06	1,215,475
Schedule 1 07	(748,947)
See Charnas Exhibit 1 for the following:	
Schedule 1 08	2,000,584
Schedule 1 09	9,763,357
Schedule 1 10	(4,381,617)
See Seelye Exhibit 1 for the following:	
Schedule 1 11	(14,374,348)
Schedule 1 12	(764,511)
	(41,959,678)

(2) See Conroy Exhibit 1 for the following:	
Schedule 1 03	(50,792,206)

(3) See Charnas Exhibit 1 for the following:	
Schedule 1.08	(78,168)

(4) See Conroy Exhibit 1 for the following:	
Schedule 1 05	(10,942,070)
Schedule 1 06	8,811,442
See Seelye Exhibit 1 for the following:	
Schedule 1 11	(4,751,178)
Schedule 1 12	(427,934)
See Scott Exhibit 1 for the following:	
Schedule 1 15	2,584,509
Schedule 1 16	1,131,067
Schedule 1 17	619,608
Schedule 1 23	1,360,429
Schedule 1 25	(3,145,310)
See Charnas Exhibit 1 for the following:	
Schedule 1 10	(3,860,848)
Schedule 1 18	(1,213,974)
Schedule 1 19	(74,301)
Schedule 1 20	(280,714)
Schedule 1 21	(10,656)
Schedule 1 22	(478,156)
Schedule 1 27	187,842
Schedule 1 28	5,394,978
Schedule 1 29	880,670
Schedule 1 30	38,530
Schedule 1 31	158,347
See Bellar Exhibit 1 for the following:	
Schedule 1 26	(330,012)
See Scott / Bellar Exhibit 1 for the following:	
Schedule 1.24	(678,288)
See Rives Exhibit 1 for the following:	
Schedule 1 32	1,757,267
	(3,268,752)

(5) See Charnas Exhibit 1 for the following:	
Schedule 1 14	16,722,648

(6) See Scott Exhibit 1 for the following:	
Schedule 1 15	176,502
Schedule 1 33	1,135,572
Schedule 1 34	(148,930)
See Charnas Exhibit 1 for the following:	
Schedule 1.35	(15,013)
	1,148,131

(7) See Scott Exhibit 1 for the following:	
Schedule 1 39	(2,142,608)
Schedule 1 40	(902,327)
Schedule 1 41	2,788,245
	(256,690)

Louisville Gas and Electric Company
Gas Income Statement
12 Months Ending April 30, 2008

		Test Year Electric		Adjustments Inc (Dec)	Adjusted Electric
1	**OPERATING REVENUES**				
2	Sales to Ultimate Consumers	374.873.592			374.873.592
3	Sales for Resale	9,367,439			9.367.439
4	Transportation Revenue	5.715,901			
5	Miscellaneous	2,434,180			2,434,180
6	Total Operating Revenues	392,391,112	(1)	(291.591.590)	100.799.522
7					
8	**OPERATING EXPENSES**				
9	Purchased Gas	288.710,020	(2)	(290.872.693)	(2,162,673)
10	Operation and Maintenance	53,823,561	(3)	658,336	54.481,897
11	Depreciation and Amortization	18.914.286	(4)	3.488,855	22,403,141
12	*Taxes Other Than Income Taxes*	5.725.965	(5)	(4,413)	5.721,552
13	Income Taxes	5,896,992	(6)	(2,573,292)	3,323,700
14	Total Utility Operating Expenses	373,070,824		(289,303,207)	83,767,617
15	Net Utility Operating Income	19,320,288		(2,288,383)	17,031,905
16					
17	Net Other Income and (Deductions)	(150,422)			(150.422)
18					
19	Net Interest Charges	10,397,326			10,397,326
20					
21	Net Income	8,772,540		(2.288.383)	6.484.157
22					
23	Preferred Dividends	1,005			1,005
24					
25	Net Income Available for Common	8,771,535		(2,288,383)	6,483,152

(1) See Bellar Exhibit 1 for the following:	
Schedule 1 00	(1,203.000)
Schedule 1.02	1,903,311
Schedule 1.13	(29.168)
See Charnas Exhibit 1 for the following:	
Schedule 1 09	(352.260)
Schedule 1 10	(1,453,819)
See Seelye Exhibit 1 for the following:	
Schedule 1 12	526.355
Schedule 1 37	1,645,733
Schedule 1 38	4,221.720
See Conroy Exhibit 1 for the following:	
Schedule 1 36	(296,850,462)
	(291,591,590)
(2) See Conroy Exhibit 1 for the following:	
Schedule 1 36	(290,872,693)
(3) See Seelye Exhibit 1 for the following:	
Schedule 1.12	190.929
See Scott Exhibit 1 for the following:	
Schedule 1 15	687.022
Schedule 1 16	300.664
Schedule 1.17	164,706
See Charnas Exhibit 1 for the following:	
Schedule 1.10	(1.921.602)
Schedule 1 19	225,412
Schedule 1 20	(108.534)
Schedule 1 27	123,722
Schedule 1 29	309,425
Schedule 1.30	13.538
Schedule 1.31	55,636
See Rives Exhibit 1 for the following:	
Schedule 1 32	617,418
	658,336
(4) See Charnas Exhibit 1 for the following:	
Schedule 1.14	3,488,855
(5) See Scott Exhibit 1 for the following:	
Schedule 1 15	46,918
Schedule 1 34	(51,331)
	(4,413)
(6) See Scott Exhibit 1 for the following:	
Schedule 1 39	(1.830.269)
Schedule 1 40	(86.646)
Schedule 1 41	(656,377)
	(2,573,292)

Louisville Gas and Electric Company
Pro-forma Balance Sheet
Total Company (Electric and Gas)

		Per Books 4/30/2008	Pro-forma Adjustments		Adjusted Balance
1	ASSETS				
2	UTILITY PLANT				
3	Utility Plant	4,378,886,316			4,378,886,316
4	Less Accumulated Depreciation	(1,898,781,651)	(20,211,503)	(1)	(1,918,993,154)
5	*Net Utility Plant*	*2,480,104,665*	*(20,211,503)*		2,459,893,162
6					
7	OTHER PROPERTY AND INVESTMENTS	43,166,325			43,166,325
8					
9	CURRENT ASSETS				
10	Cash	3,066,237			3,066,237
11	Accounts Receivable-Less Reserve	144,899,165			144,899,165
12	Notes Receivable from Associated Companies	-			-
13	Accounts Receivable from Assoc Companies	3,145,553			3,145,553
14	Gas Stored Underground	16,329,065			16,329,065
15	Materials & Operating Supplies	72,724,724			72,724,724
16	Allowance Inventory	10,619			10,619
17	Prepayments	4,000,140			4,000,140
18	Miscellaneous Current & Accrued Assets	-			-
19	Total Current Assets	244,175,503	-		244,175,503
20					
21	OTHER ASSETS				
22	Unamortized Debt Expense	7,571,062			7,571,062
23	Unamortized Loss on Bonds	20,952,677			20,952,677
24	Accumulated Deferred Income Taxes	52,590,460			52,590,460
25	Deferred Regulatory Assets	150,694,189			150,694,189
26	Other Deferred Debits	38,251,268			38,251,268
27	Total Other Assets	270,059,656	-		270,059,656
28	TOTAL ASSETS	3,037,506,149	(20,211,503)		3,017,294,646
29					
30	LIABILITIES AND SHAREHOLDERS' EQUITY				
31	CAPITALIZATION				
32	Common Shareholders' Equity	(1,144,296,135)	7,723,024	(2)	(1,136,573,111)
33	Preferred Stock	-			-
34	Long-term Debt	(878,104,000)			(878,104,000)
35	*Accounts Receivable Securitization*	-			-
36		-			
37	CURRENT LIABILITIES	-			-
38	Notes Payable to Associated Companies	(158,075,200)			(158,075,200)
39	TOTAL CAPITAL STRUCTURE	(2,180,475,335)	7,723,024		(2,172,752,311)
40					
41	Accounts Payable	(93,669,893)	9,658,497	(3)	(84,011,396)
42	Accounts Payable to Associated Companies	(19,666,353)			(19,666,353)
43	Taxes Accrued	(7,299,526)	2,829,982	(4)	(4,469,544)
44	Customer Deposits	(20,064,241)			(20,064,241)
45	Interest Accrued	(7,649,936)			(7,649,936)
46	Dividends Declared	-			-
47	ST Obligations Under Capital Leases	(275,441)			(275,441)
48	Misc Current & Accrued Liabilities	(11,902,403)			(11,902,403)
49	Total Current Liabilities	(160,527,793)	12,488,479		(148,039,314)
50					
51	DEFERRED CREDITS AND OTHER				-
52	Accumulated Deferred Income Taxes	(398,795,539)			(398,795,539)
53	Investment Tax Credit	(46,094,972)			(46,094,972)
54	Regulatory Liabilities	(54,711,742)			(54,711,742)
55	Customer Advances for Construction	(20,132,319)			(20,132,319)
56	Asset Retirement Obligations	(30,186,557)			(30,186,557)
57	Other Deferred Credits	(20,151,669)			(20,151,669)
58	Misc Long-Term liabilities	(31,009,547)			(31,009,547)
59	Accum Provision for Post-Retirement Benefits	(95,420,676)			(95,420,676)
60	Total Deferred Credits	(696,503,021)	-		(696,503,021)
61	TOTAL LIABILITIES	(3,037,506,149)	20,211,503		(3,017,294,646)

(1) See line 12, adjustments, Electric Income Statement and line 11, adjustments, Gas Income Statement
(2) See line 26, adjustments, Electric Income Statement and line 25, adjustments, Gas Income Statement
(3) See lines 6, 9, 10, 11, 13, adjustments, Electric Income Statement and lines 6, 9, 10, 12, adjustments, Gas Income Statement
(4) See line 14, adjustments, Electric Income Statement and line 13, adjustments, Gas Income Statement
(5) Consistent with Filing Requirements used in LG&E Case No 2000-080 and 2003-00433, only income statement pro-forma adjustments are shown and balance sheet is shown on a total company basis

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(b)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(c) For each proposed pro forma adjustment reflecting plant additions provide the following information:

1. The starting date of the construction of each major component of plant;

2. The proposed in-service date;

3. The total estimated cost of construction at completion;

4. The amount contained in construction work in progress at the end of the test period;

5. A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;

6. The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement (continued):

7. An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and

8. The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(d)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

> *(d) The operating budget for each period encompassing the pro forma adjustments.*

Response:

See attached.

LG&E
Income Statement

(000's)

	2007 Budget								2008 Budget			
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	5	6	7	8	9	10	11	12	1	2	3	4
	May-2007	Jun-2007	Jul-2007	Aug-2007	Sep-2007	Oct-2007	Nov-2007	Dec-2007	Jan-2008	Feb-2008	Mar-2008	Apr-2008
Revenues:												
Electric Revenues	$83,018	$89,467	$100,793	$100,366	$85,641	$73,517	$67,124	$80,822	$84,299	$75,268	$70,526	$65,355
Gas Revenues	$19,234	$13,840	$11,846	$11,947	$13,459	$23,275	$47,321	$73,259	75,969	62,598	51,395	26,643
Total Revenues	102,253	103,307	112,639	112,313	99,100	96,791	114,445	154,081	160,268	137,867	121,921	91,989
Cost of Revenues:												
Fuel Electric Costs	24,419	26,159	30,413	30,993	23,455	21,868	21,600	26,155	25,672	21,764	24,024	22,593
Ash Disposal Costs	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	0	0	0	0
Purchased Power Costs	12,097	7,816	8,873	7,996	9,826	10,011	5,487	9,459	9,638	8,275	5,689	4,142
Transmission Expense	1,741	1,102	859	953	1,312	1,204	814	1,283	2,719	1,233	664	405
Scrubber, SCR Ammonia and Waste disposal Costs-NonLabor	1,275	1,427	1,501	1,497	1,319	1,199	1,229	1,291	1,989	1,480	1,766	2,210
Emissions Allowances	0	1	0	0	0	0	0	1	0	0	0	0
Total Electric Cost of Revenues	39,525	36,497	41,638	41,432	15,904	34,276	29,122	38,182	40,018	32,752	32,145	29,350
Gas Supply Expenses	13,598	8,824	6,871	6,870	8,303	16,915	37,850	59,888	61,347	50,144	40,664	19,533
Other Cost of Sales NonLabor	0	0	0	0	0	0	0	0	0	0	0	0
Total Cost of Revenues	53,123	45,321	48,510	48,302	44,207	51,191	66,973	98,069	101,365	82,896	72,809	48,883
Gross Margin:												
Electric Margin	43,493	52,970	59,155	58,935	49,737	39,241	38,002	42,640	44,281	42,516	38,382	36,006
Gas Margin	5,636	5,016	4,975	5,077	5,156	6,359	9,471	13,372	14,623	12,455	10,731	7,110
Total Gross Margin	49,129	57,986	64,130	64,012	54,893	45,600	47,473	56,012	58,903	54,971	49,112	43,115
Operating expenses:												
Outside Services-Maintenance	4,483	3,674	2,388	2,433	2,772	2,918	4,957	4,210	1,901	4,056	6,440	4,235
Outside Services-Other	2,983	3,772	2,670	3,027	3,618	2,850	2,937	4,226	2,961	3,208	3,257	3,411
Personnel Expenses	11,963	10,932	11,122	12,332	10,467	12,428	10,965	10,091	12,282	11,550	11,514	12,084
Pension Interest	(641)	(586)	(596)	(661)	(561)	(666)	(588)	(541)	(1,043)	(981)	(978)	(1,026)
FAS106 Interest	480	439	446	495	420	499	440	405	730	687	684	718
Non Labor-Maintenance	1,384	1,251	1,073	1,128	1,038	1,110	1,407	1,246	1,073	1,436	1,253	2,527
Non Labor-Other	3,351	8,055	4,129	4,022	4,425	4,211	3,709	4,698	5,932	5,442	5,075	5,252
Depreciation, Amortization and Impairment	10,451	10,497	10,548	10,583	10,613	10,639	10,665	10,774	10,525	10,536	10,550	10,573
Property and other taxes	1,348	1,348	1,352	1,352	1,352	1,352	1,352	1,352	1,523	1,523	1,523	1,523
Total Operating Expenses	35,803	39,382	33,132	34,710	34,144	35,340	35,844	36,461	35,885	37,456	39,318	39,298
Operating Profit	13,327	18,604	30,998	29,301	20,750	10,259	11,629	19,550	23,019	17,515	9,794	3,817
Equity in Consolidated Subs	0	0	0	0	0	0	0	0	0	0	0	0
Gain on sale of Fixed Assets	0	5	0	0	0	0	0	0	0	0	0	0
Income From Investments	0	23	0	0	23	0	0	23	0	0	28	0
Other income (expense)	108	115	119	133	128	126	165	129	135	104	154	139
Total Other Income (expense)	108	142	119	133	150	126	165	151	135	104	182	139
Interest Income	24	24	24	24	23	22	23	25	20	22	20	20
I/C Interest Income	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest Income	24	24	24	24	23	22	23	25	20	22	20	20
Interest Expense	(2,223)	(2,157)	(2,222)	(2,222)	(2,157)	(2,222)	(2,157)	(2,222)	(2,195)	(2,066)	(2,195)	(2,131)
I/C Interest Exp - Non US Midwest	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,700)	(1,700)	(1,828)	(1,828)	(1,828)	(1,828)
I/C Interest Exp - US Midwest	(247)	(270)	(382)	(382)	(470)	(522)	(496)	(405)	(403)	(233)	(140)	(208)
Interest Expense	(4,046)	(4,003)	(4,181)	(4,181)	(4,203)	(4,320)	(4,353)	(4,327)	(4,426)	(4,127)	(4,163)	(4,167)
Pretax Income (loss)	9,413	14,767	26,960	25,277	16,720	6,087	7,464	15,399	18,748	13,514	5,833	(191)
Current Tax Expense	(3,662)	(5,835)	(10,487)	(9,833)	(6,594)	(2,368)	(2,903)	(6,080)	(7,293)	(5,257)	277	74
Deferred Tax Expense	329	1,239	329	329	1,239	329	329	1,239	323	323	(1,589)	323
Total Income Tax Expense (Benefit)	(3,332)	(4,596)	(10,158)	(9,504)	(5,355)	(2,039)	(2,574)	(4,841)	(6,970)	(4,934)	(1,312)	397
Income from Cont. Ops. before Minority Int. & Preferred Dividends	6,081	10,172	16,802	15,774	11,365	4,048	4,890	10,558	11,778	8,580	4,521	206
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Preferred Dividends	0	0	0	0	0	0	0	0	0	0	0	0
Income from Continuing Operations	6,081	10,172	16,802	15,774	11,365	4,048	4,890	10,558	11,778	8,580	4,521	206
Income/Loss from Discontinued Operations (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Income/Loss from Disposal of Disco Ops (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Total Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	$6,081	$10,172	$16,802	$15,774	$11,365	$4,048	$4,890	$10,558	$11,778	$8,580	$4,521	$206

Louisville Gas and Electric Company
Case No. 2008-00252
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(e)
Sponsoring Witness: W. Steven Seelye

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.

Response:

Please refer to the testimonies and exhibits of W. Steven Seelye.