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FORM 10-Q
(Quarterly Report)

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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, 2006	2005	Nine Months Ended September 30, 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, 2006	2005	Nine Months Ended September 30, 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, 2006	2005	Nine Months Ended September 30, 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	Nine Months

	Ended September 30, 2006	2005	Ended September 30, 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,			
(in millions)	2006		2005		2006		2005	
	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	Three Months Ended

	September 30, 2006	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 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	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.

Applicable to Form

10-Q of

Exhibit No.	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)

EXHIBIT 10.01

E.ON SHARE PERFORMANCE-PLAN

TERMS AND CONDITIONS FOR THE 1. TRANCHE (2006-2008)

(DATE: JUNE 2006)

PREAMBLE

E.ON Group's long-term and sustainable success is largely determined by the commitment of its employees. Because of their role in fundamental strategic decisions, managers and top executives are responsible for promoting the company's sustainable success and the positive long-term performance of E.ON stock.

In order to provide the necessary incentives for managers and top executives and in order to reward for positive performance of the E.ON stock in the capital markets, E.ON began as early as seven years ago to extend the scope of its compensation systems on an annual basis by including a long- term compensation component. Participation in the Share Performance Plan is a voluntary benefit offered by E.ON. Beneficiaries do not acquire a claim to any future participation in the Plan. E.ON will examine regularly which type of long-term incentive (LTI) is most effective in supporting the E.ON Group's compensation philosophy.

Beginning in 2006, the LTI will be designed as a share performance plan based on virtual stocks. The changes relative to the previous plan's design were made primarily in order to be in line with current market practice, and to more effectively meet the requirements of corporate governance and the rules on insider trading. The changes adopted to this effect include the introduction of the relative stock price performance as a value-determining element, the stipulation of a three-year time to maturity, and the elimination of personal exercise decisions in favor of simultaneous centralized settlement. In future, the calculation of the amount to be paid out will be based on the stock's value upon maturity, instead of the stock price gains during the time to maturity.

Because of their three-year time to maturity, the virtual stocks are tied to the company's long-term success. Their dependence on the stock price performance creates an identity of interests and objectives for executives and shareholders. This effect is further enhanced by the personal investment that executives have to make in E.ON AG shares during the maturity period of the Share Performance Plan. In addition, the fact that the performance of the stock is benchmarked against the performance of an industry index amplifies the element of risk. There will be no payments under the Plan unless a minimum performance is achieved relative to this defined benchmark.

Managers and top executives are awarded performance rights in writing, accompanied by the Supplementary Terms and Conditions describing the specifics of the tranche concerned and specifying the number of performance rights awarded to an executive. In addition, the Supplementary Terms and Conditions specify the number of E.ON stocks that beneficiaries must hold as a personal investment before they can be awarded performance rights. The Terms and Conditions for the plan as well as the Supplementary Terms and Conditions both form integral parts of the performance rights awarded.

There is a "Technical Annex", which is an integral part of the Terms and Conditions. This Technical Annex provides more detailed information relating to the Terms and Conditions and contains not only explanatory comments but also the mathematical formulas and definitions required for the calculation of the amount to be paid.

1 PERFORMANCE RIGHT, CASH AMOUNT

(1) Within the framework of this Share Performance Plan, the company ("Company") mentioned in the Supplementary Terms and Conditions shall award performance rights ("Performance Rights") of stock of E.ON AG, Dusseldorf ("E.ON AG"); beneficiaries shall be entitled to receive a given number of Performance Rights as determined in the Supplementary Terms and Conditions. In accordance with said terms and conditions, the holder of a Performance Right (the "Beneficiary") shall be entitled to payment by the Company of the amount per Performance Right (the "Cash Amount") determined at the end of the maturity period (as defined in Article 2 below). Additional rights such as voting or dividend rights shall not be associated with Performance Rights.

(2) The Cash Amount shall be determined by the Calculation Agent (as defined in Article 6 below) and shall be equivalent to the product (rounded off to the second decimal) of the Closing Price (as defined in Article 3 below) and the Performance Factor (as defined in Article 4 below). The maximum Cash Amount to be paid to Beneficiaries shall be the triple of the stock's initial value (E-O) as specified in the Supplementary Terms and Conditions.

(3) Performance Rights shall be awarded free of charge.

2 TIME TO MATURITY

The time to maturity of Performance Rights shall be three years; it shall begin on January 1 of the year in which they are awarded ("start of maturity period") and shall end on December 31 of the second calendar year following the calendar year in which they were awarded ("end of

maturity period").

3 DETERMINATION OF THE CLOSING PRICE

The Closing Price (EON-PAY) shall be the arithmetic mean (expressed in euros ("EUR") and adjusted for Capital Measures during the performance rights' time to maturity) of the closing prices as determined and published by Deutsche Borse AG in the XETRA(R) electronic trading system (Exchange Electronic Trading) during the preceding 60 trading days within the plan's time to maturity of the no par bearer share of common stock of E.ON AG (the "E.ON Stock") which has an accounting par value of EUR 2.60. The Closing Price shall be calculated as specified in (1) of the Technical Annex.

4 DETERMINATION OF THE PERFORMANCE FACTOR

The "Performance Factor" shall depend on the Total Shareholder Return ("TSR") of the E.ON Stock and the Dow Jones STOXX Utility EUR Return Index, referred to as the "Index" (as explained in greater detail in (2) of the Technical Annex). This factor shall be determined at the end of the maturity period and shall take into account not only the stock performance but also dividend payouts and capital measures. The Performance Factor shall be 1 if the performance of the TSR of the E.ON Stock is identical with that of the Index. If the E.ON Stock outperforms the Index, the Performance Factor shall increase proportionately. If the E.ON Stock underperforms the Index, the Performance Factor shall be reduced by the quintuple of the underperformance. The Performance Factor shall be 0 if the total underperformance amounts to 20 percentage points or more. The Performance Factor shall be calculated as specified in (3) of the Technical Annex.

5 CAPITAL MEASURES OF E.ON AG, DIVIDEND PAYMENTS AND TRANSFORMATION OF E.ON AG

(1) If E.ON AG implements Capital Measures and distributes Special Dividends (both terms as defined in (4)(a) of the Technical Annex) during the Performance Rights' maturity period, the economic effects that such measures have on the value of the Performance Rights shall be offset. To this end, so-called Capital Adjustment Factors (KAF-PAY-T-I, KAF-PERF-T-I) shall be taken into account when determining the Closing Price and the Performance Factor. The Capital Adjustment Factors shall be calculated as specified in (4)(b) of the Technical Annex.

(2) In order to compensate for the economic effects of dividend payments by E.ON AG that do not qualify as Special Dividends, a so-called Dividend Factor (DF-T-I) shall be taken into account when determining the Performance Factor. The Dividend Factor shall be calculated as specified in (5) of the Technical Annex.

(3) Should E.ON AG carry out capital measures other than those specified in
(1) above in conjunction with (4)(a) of the Technical Annex, or should E.ON AG be transformed in accordance with the provisions of the German Conversion Act (see (4)(c) of the Technical Annex), without this event triggering an extraordinary settlement of the Performance Rights (as specified in Article 8(1) below), these Terms and Conditions shall be adjusted in such a way that the economic effects that the cited measures have on the value of the Performance Rights will be offset. Adjustments of the Terms and Conditions shall be jointly agreed upon by the Calculation Agent and E.ON AG and shall be communicated to the Beneficiaries by the Company. Adjustments made by the Calculation Agent and E.ON AG shall be binding on the Company and the Beneficiaries in the absence of manifest errors.

6 CALCULATION AGENT

(1) HSBC Trinkaus & Burkhardt KGaA, Dusseldorf, shall be the "Calculation Agent". E.ON AG shall be entitled to appoint a new Calculation Agent for compelling reasons. However, E.ON AG shall ensure that a Calculation Agent is appointed at any time during the entire maturity period of the Performance Rights. Should the Calculation Agent cease to perform its function or should it no longer be able or willing to perform its function, E.ON AG shall be obliged to appoint another leading bank in the stock options business. If another Calculation Agent is appointed, the Beneficiaries shall be notified by the Company without undue delay.

(2) All calculation data provided and decisions made by the Calculation Agent for the purposes defined in the present Terms and Conditions shall (in the absence of a manifest error) be binding upon the Company and the Beneficiaries. Notwithstanding the aforementioned provisions, any claims by Beneficiaries may be lodged only against the Company.

7 PAYMENT OF CASH AMOUNT

(1) The Company shall deposit the Cash Amount accrued on the full number of a Beneficiary's Performance Rights to the Beneficiary's payroll account in connection with the next possible salary or pension payment after the end of the maturity period.

(2) Any (income) taxes, levies and employee social security contributions arising from the Cash Amount shall be borne by the Beneficiary.

(3) Should a Beneficiary's salary or pension be paid in a currency other than EUR, the Company shall be entitled at its reasonable discretion to translate the EUR Cash Amount accrued on the full number of Performance Rights of the Beneficiary concerned into the required currency based on the exchange rate effective on the cut-off date. The relevant exchange rate for the currency translation shall be the exchange rate effective at the end of the maturity period or, in the cases specified in Article 8 below, the exchange rate effective on the date of the event triggering the extraordinary settlement.

8 EXTRAORDINARY SETTLEMENT OF PERFORMANCE RIGHTS

(1) Following a "Change-in-Control" event (as defined below) regarding E.ON AG, the time to maturity of the Performance Rights shall end prematurely on the date of occurrence of such an event. The Beneficiary shall receive from the Company the Cash Amount which shall be determined by analogy in accordance with Articles 1(2), 3 and 4. In this event, Article 7 shall apply mutatis mutandis.

An event is a "Change-in-Control" event regarding E.ON if:

a) E.ON AG is notified by a third party, under Section 21 of the German Securities Trading Act (WpHG), that said party has acquired 25 percent or more of the voting rights of E.ON AG, or

b) a third party, either on its own or by virtue of voting rights attributable to said party in accordance with Section 22 WpHG, has acquired a share in voting rights which at an Annual Shareholders Meeting of E.ON AG has represented, or which at E.ON AG's last Annual Shareholders Meeting would have represented, at least half of E.ON AG's voting capital present at such a Meeting, or

c) an affiliation agreement has been concluded with E.ON AG as a controlled company, in accordance with Sections 291 ff. of the German Stock Corporation Act (AktG), or

d) E.ON AG is integrated into another company, in accordance with Sections 319 ff. of the German Stock Corporation Act (AktG), or

e) E.ON AG changes its legal form in accordance with Sections 190 ff. of the German Conversion Act (UmwG) (except for a conversion into a European Company), or

f) the stock of E.ON AG is no longer admitted for stock exchange trading in an organized market, or

g) E.ON AG is merged with another legal entity in accordance with Sections 2 ff. of the German Conversion Act (UmwG), provided that the enterprise value of the other legal entity is less than 20 percent of E.ON AG's enterprise value at the time when a resolution to this effect is adopted by E.ON AG. The valuation methods acknowledged by the professional association of certified public accountants (Standard 1 of 2005 as published by the Institut der Wirtschaftsprufer "Grundsatze zur Durchfuhrung von Unternehmensbewertungen" as well as the professional association's more recent pronouncements) shall be used to determine the value of both entities, provided that both enterprise values are determined in accordance with said principles in connection with the merger. Otherwise, the market capitalization of both legal entities at the time when the resolution is adopted by E.ON AG shall be deemed to be their respective enterprise values. If a market capitalization cannot be determined, the enterprise values agreed between the two legal entities shall be deemed to be the effective enterprise values.

E.ON AG shall notify Beneficiaries without undue delay of any "Change-in- Control" event regarding E.ON AG.

(2) If the Company ceases to be an affiliated company of E.ON AG, as defined in Section 15 of the German Stock Corporation Act (AktG) ("Change-in- Control" event regarding the Company), the time to maturity of the Performance Rights shall end prematurely on the date of occurrence of such an event. The Beneficiary shall receive from the Company the Cash Amount which shall be determined by analogy in accordance with Articles 1(2), 3 and 4. In this event, Article 7 shall apply mutatis mutandis.

The Company shall notify Beneficiaries without undue delay of any "Change- in-Control" event regarding the Company.

(3) The following provisions shall apply if the employment contract of a Beneficiary terminates prior to the end of the Performance Rights' maturity period due to

a) the Beneficiary's retirement,

b) the Beneficiary's death,

c) the termination of a fixed-term employment contract,

d) contractual notice of termination being given by the Company,

e) behavior-related contractual notice of termination or summary termination of the employment contract for cause (as defined in Section 622 (1) of the German Civil Code) by the Company, or

f) the termination of the employment contract by the Beneficiary.

In case (a) above, the Beneficiary shall be entitled to request from the Company the premature calculation of the Cash Amount within one month after the event. If a Beneficiary does not make any use of this right, he or she shall receive the Cash Amount determined at the end of the maturity period.

In cases (b), (c) and (d) above, the time to maturity shall end prematurely, either on the monthly cut-off date preceding the termination of the employment contract, or if the date of the event coincides with a monthly cut-off date, on that monthly cut-off date. This shall also apply to case (a) above if a Beneficiary has requested the premature calculation of the Performance Amount.

In cases (a) to (d) above, the Beneficiary shall receive from the Company the Cash Amount which shall be determined by analogy in accordance with Articles 1(2), 3 and 4 above. In this event, Article 7 shall apply mutatis mutandis.

In cases (e) and (f) above, the Performance Rights awarded to the Beneficiary shall be lost without compensation when the employment contract is terminated.

(4) If the employment contract between a Beneficiary and the Company is terminated and if the Beneficiary subsequently enters into an employment contract with an affiliated company of E.ON AG as defined in Section 15 of the German Stock Corporation Act (AktG), this shall not affect the Beneficiary's Performance Rights, except as otherwise provided in the Beneficiary's personal employment contract.

9 TRANSFERABILITY

Performance Rights may not be assigned or pledged. It shall also be prohibited to dispose of the Performance Rights in any other form, to grant sub-participation or to establish a trust. Beneficiaries shall not be allowed to conduct any back-to-back transactions that are economically tantamount to selling the Performance Rights. If any of these provisions are violated, the Performance Rights awarded shall be lost without compensation.

10 WRITTEN FORM

Amendments and supplements to these Terms and Conditions must be made in writing. This shall also apply to amendments of the present Article or the Technical Annex.

11 APPLICABLE LAW, ANNEXES, PLACE OF PERFORMANCE AND JURISDICTION

(1) The form and substance of the Performance Rights, as well as all rights and duties of Beneficiaries and the Company, shall be governed in every respect by the law applicable in the Federal Republic of Germany.

(2) The Technical Annex shall form part of these Terms and Conditions.

(3) The place of performance shall be the place where the Company concerned has its corporate domicile.

(4) The venue for the settlement of disputes arising from matters covered in these Terms and Conditions shall be Dusseldorf.

12 PARTIAL INVALIDITY

Should any of the provisions of these Terms and Conditions be or become invalid or impracticable, in whole or in part, this shall not affect the validity of the other provisions. Any gap resulting from the invalidity or impracticability of a provision of these Terms and Conditions shall be filled by additionally interpreting the terms of the contract by analogy, taking into consideration the interests of the parties involved.

EXHIBIT 10.01 (Continued)

TECHNICAL ANNEX

TO THE TERMS AND CONDITIONS OF THE 1ST TRANCHE (2006-2008)

DATE: JUNE 2006

1. CALCULATION OF THE CLOSING PRICE AS SPECIFIED IN ART.3 OF THE TERMS AND CONDITIONS

The Closing Price (EON-PAY) shall be calculated as follows:

EON-PAY = (1/60) * [(Sum from I=1 to I=60) of E-T-I] * KAF-PAY-T-I

Where:

E-T-I : is the Closing Price of the E.ON Stock, as determined and pub- lished by Deutsche Borse AG in the XETRA (R) electronic trading system during the Averaging Period (as defined below).

KAF-PAY-T-I : is the Capital Adjustment Factor (as defined in (4) below) at the time T-I .

The "Averaging Period" within the meaning of these Terms and Conditions shall be the preceding 60 Trading Days (as defined below) within the maturity period.

"Trading Day" within the meaning of these Terms and Conditions shall be a day on which Deutsche Borse AG determines and publishes the Closing Price of the E.ON Stock in the XETRA electronic trading system and on which the Index Provider determines and publishes the closing price of the Index.

2. DETERMINATION OF THE REFERENCE INDEX

a) The Dow Jones STOXX Utility EUR Return Index (ISIN code: EU 000 9658970) shall be determined by STOXX Limited, Zurich (hereinafter refer- red to as the "Index Provider").

b) The items fundamental to the calculation of the Index and the determination of the Initial Index shall be (i) the concept of the Index as defined and maintained by the Index Provider, along with (ii) the calculation, determination, and publication of the Index by the Index Provider, even if future changes or adjustments are made to the calculation of the Index, the composition or weighting of prices and stocks used as a basis to calculate the Index, the manner and means by which it is published, or if other changes or adjustments are made or measures are taken that affect the calculation of the Index, unless otherwise specified in the following provisions.

c) If (i) the fundamental design and/or calculation method or the basis of the Index is changed in a substantial way so that the continuity or comparability of the Index calculated on the old basis no longer exists (e.g., if the Index is significantly altered as a result of a change, adjustment or other measures although the prices of the various stocks included in the Index and their weighting have not changed), or if (ii) during the maturity period of the Performance Rights the Index is no longer regularly determined and published by the Index Provider or some other legal entity, the Terms and Conditions shall be adjusted so as to ensure that the indexing concept underlying the Performance Rights will be preserved, as much as possible, in terms of its economic effects.

d) Adjustments as specified in (c) above shall have to be jointly agreed upon by the Calculation Agent and E.ON AG and shall be communicated to the Beneficiaries by the Company. Adjustments made by the Calculation Agent and E.ON AG shall be binding on the Company and the Beneficiaries in the absence of manifest errors.

3. CALCULATION OF THE PERFORMANCE FACTOR AS SPECIFIED IN ART.4 OF THE TERMS AND CONDITIONS

The Performance Factor (PF) shall be determined on the basis of the Per- formance (R-S) of the Index, the Total Shareholder Return ("TSR") of the E.ON Stock (R-EON) and the performance difference (P-DIFF = outperfor- mance or underperformance of the E.ON Stock relative to the Index as de- fined in Art. 4 of the Terms and Conditions) between the E.ON Stock and the Index, which shall be calculated by means of the following formulas, where T-1,...,T-60 represent the days of the averaging period at the end of the maturity period.

a) The performance of the Index (R-S) shall be calculated as follows:

R-S = [(1/60) * ((Sum from I=1 to I=60) of S-T-I)] / [(S-O) - 1]

Where:

S-T-I : is the closing price of the Index as determined and published during the Averaging Period.

S-O : is the arithmetic mean, rounded off to the second decimal, of the closing indexes as determined and published by the Index Provider during the preceding 60 Trading Days prior to the maturity period.

b) The TSR of the E.ON Stock (R-EON) shall be calculated, taking into account dividend payments and Capital Measures, by means of the following formula:

R-EON = [(1/60) * ((Sum from I=1 to I=60) of E-T-I) * DF-T-I
* KAF-PERF-T-I] / [(E-O) - 1]

Where:

E-T-I : is the Closing Price of the E.ON Stock, as determined and published by Deutsche Borse AG in the XETRA(R) elec- tronic trading system during the Averaging Period.

E-O : is the arithmetic mean, rounded off to the second decimal, of the E.ON Stock's Closing Prices, as determined and published by Deutsche Borse AG in the XETRA(R) electro-nic trading system during the preceding 60 Trading Days prior to the maturity period.

DF-T-I : is the Dividend Factor (as defined in Art. 5 of the Terms and Conditions) at the time T-I.

KAF-PERF-T-I : is the Capital Adjustment Factor (as defined in (4) below) at the time

c) The performance difference (P-DIFF) shall be calculated as follows:

P-DIFF = R-EON - R-S

d) The Performance Factor (P-F) shall be calculated by means of the following formula:

PF = 1 + P-DIFF (if P-DIFF >= 0)
PF = max of (1 + (5*P-DIFF) or 0 (if P-DIFF <0)

4. CALCULATION OF THE CAPITAL ADJUSTMENT FACTORS TO REFLECT CAPITAL MEASURES OR SPECIAL DIVIDENDS BY E.ON AG AS SPECIFIED IN ART.5(1) OF THE TERMS AND CONDITIONS

a) "Capital Measures" within the meaning of these Terms and Conditions shall include the following events:

E.ON AG

(i) increases its capital by issuing new shares against contributions while granting its shareholders direct or indirect subscription rights ("Capital Increase against Contributions"),

(ii) increases its capital out of retained earnings ("Capital Increase out of Retained Earnings"), or

(iii) directly or indirectly grants its stockholders a right to subscribe for bonds or other securities with option or conversion rights on stock ("Issuance of Securities with Option or Conversion Rights").

A "Special Dividend" within the meaning of these Terms and Conditions shall be defined as follows:

E.ON AG pays its stockholders a dividend that is explicitly referred to as a special or extraordinary dividend by the annual shareholders meeting of E.ON AG.

b) In accordance with Art.5(1) of the Terms and Conditions, the Capital Adjustment Factors (KAF-PERF-T-I, KAF-PAY-T-I) shall be adjusted as of the cut-off date (T-I) of the Capital Measure or Special Dividend concerned by applying the same principles that are applied by the Index Provider (see (2)(a) above) in order to compensate for capital measures and the distribution of special dividends. These principles are regularly published at www.stoxx.com ("Index Guides"). The initial value of the Capital Adjustment Factors (KAF-PERF-T-I, KAF-PAY-T-I) shall be 1.0000000.

The Capital Adjustment Factor KAF-PAY-T-I, which is used to determine the Closing Price, includes the gross amounts of Special Dividends (i.e. without deducting withholding taxes), which deviates from the principles applied by the Index Provider.

Should the E.ON Stock cease to be part of the Index, the Calculation Agent shall adjust the Capital Adjustment Factors by applying the Index Provider's adjustment rules mutatis mutandis.

The Capital Adjustment Factors (KAF-PERF-T-I, KAF-PAY-T-I) shall be rounded off to the seventh decimal.

The "Cut-off Date" for the adjustment of the Capital Adjustment Factors (KAF-PERF-T-I, KAF-PAY-T-I) shall be the first Trading Day on the Frankfurt Stock Exchange on which the shares are quoted "ex dividend", "ex subscription right" or "ex bonus shares".

c) "Transformation" as defined in Art.5(3) of the Terms and Conditions shall particularly be represented by one of the following measures:

(i) a merger of E.ON AG by way of absorption where E.ON AG is not the absorbing company, or by way of establishing a new company,

(ii) any other transaction (e.g. split, asset transfer, integration or restructuring,modification, or exchange of shares) through which or as a result of which all shares of E.ON AG are irrevocably invalidated, transferred, scheduled to be transferred, reclassified, or modified in their legal status, and

(iii) any other transaction that has the same economic effects as the aforementioned transactions.

5. CALCLULATION OF THE DIVIDEND FACTOR TO REFLECT DIVIDEND PAYMENTS BY E.ON AG AS SPECIFIED IN ART.5(2)

OF THE TERMS AND CONDITIONS

The initial value of the Dividend Factor (DF-T-I) included in the performance the E.ON Stock shall be 1.0000000, which in the event of dividend payments by E.ON AG that are not Special Dividends as defined in (4)(a) above shall be adjusted on each ex-dividend day (ti) in accordance with the principles applied by the Index Provider. These principles are regularly published at www.stoxx.com ("Index Guides").

Should the E.ON Stock cease to be part of the Index, the Calculation Agent shall adjust the Dividend Factor (DF-T-I) by applying the Index Provider's adjustment rules mutatis mutandis.

Following the adjustment, the Dividend Factor (DF-T-I) corresponds to the number of phantom stocks held at the time T-I as a result of reinvesting the fictitious net dividend, based on an initial portfolio of one phantom share.

The Dividend Factor (DF-T-I) shall be rounded off to the seventh decimal.

EXHIBIT 10.02

CERTIFICATE OF AWARD
E.ON
Share Performance Plan

2006 - 2008

Share Performance Rights Award

As of January 1, 2006, the Management Board of E.ON has awarded <# of rights> Share Performance Rights to

<Officer Name>

with an initial value of 79.22 eurodollars.

Subject to terms and conditions of the E.ON Share Performance Plan, these Share Performance Rights are payable in cash at the end of the maturity period.

Dr. Wulf H. Bernotat

Victor A. Staffieri

<Officer Name>

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 quarterly report on Form 10-Q 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 officer 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 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; and

5. The registrant's other certifying officer 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 the 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: November 9, 2006

/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 quarterly report on Form 10-Q 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 officer 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 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; and

5. The registrant's other certifying officer 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 the 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: November 9, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Exhibit 31.3

Kentucky Utilities Company

I, Victor A. Staffieri, Chairman of the Board, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities 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 officer 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 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; and

5. The registrant's other certifying officer 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 the 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: November 9, 2006

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman of the Board, President and Chief Executive Officer

Exhibit 31.4

Kentucky Utilities Company

I, S. Bradford Rives, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities 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 officer 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 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; and

5. The registrant's other certifying officer 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 the 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: November 9, 2006

/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 Quarterly Report of Louisville Gas and Electric Company and Kentucky Utilities Company (the "Companies") on Form 10-Q for the period ended September 30, 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 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 Companies as of the dates and for the periods expressed in the Report.

November 9, 2006

/s/ Victor A. Staffieri
Chairman of the Board, President
and Chief Executive Officer
Louisville Gas and Electric Company
Kentucky Utilities Company

/s/ S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company
Kentucky Utilities 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.