PPL Corp
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2017
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street	61-0247570

Lexington, KY 40507-1462
(502) 627-2000

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

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

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

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

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

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

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[ ]
PPL Electric Utilities Corporation	[ ]
LG&E and KU Energy LLC	[ ]
Louisville Gas and Electric Company	[ ]
Kentucky Utilities Company	[ ]

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

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

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

PPL Corporation	Common stock, $0.01 par value, 685,855,683 shares outstanding at July 27, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 27, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 27, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 27, 2017.

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

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

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FOR THE QUARTER ENDED JUNE 30, 2017

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

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

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FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002
CERTIFICATES OF PRINCIPAL
EXECUTIVE OFFICER AND PRINCIPAL
FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

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

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

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

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

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

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

WPD plc - Western Power Distribution plc, a direct U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

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

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard.

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - At-the-Market stock offering program.

BSER - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

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

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

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

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - A non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

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

EPS - Earnings per share.

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

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

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

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

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

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

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

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

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OCI - other comprehensive income or loss.

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

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

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

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

PP&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions are based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

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

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

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

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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

S&P - S&P Global Ratings, a credit rating agency.

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

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

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

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

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

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

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

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

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

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

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2016 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of unrecorded commitments and liabilities, if any, of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- fuel supply for LG&E and KU;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
-

the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;

- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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

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

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	$1,725	$1,785	$3,676	$3,796
Operating Expenses				
Operation				
Fuel	183	183	374	380
Energy purchases	136	147	351	380
Other operation and maintenance	388	425	820	875
Depreciation	246	231	488	460
Taxes, other than income	70	74	145	153
Total Operating Expenses	1,023	1,060	2,178	2,248
Operating Income	702	725	1,498	1,548
Other Income (Expense) - net	(112)	174	(159)	235
Interest Expense	222	224	439	448
Income Before Income Taxes	368	675	900	1,335
Income Taxes	76	192	205	371
Net Income	$292	$483	$695	$964
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	$0.43	$0.71	$1.02	$1.42
Diluted	$0.43	$0.71	$1.01	$1.41
Dividends Declared Per Share of Common Stock	$0.3950	$0.38	$0.79	$0.76
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	683,841	677,145	682,370	676,293
Diluted	686,351	680,729	684,725	679,773

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$292	$483	$695	$964
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, ($1), ($2)	231	268	207	(196)
Qualifying derivatives, net of tax of $5, $22, $7, $7	(24)	(85)	(30)	(5)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of $7, ($1), $7, ($1)	(11)	2	(11)	2
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of ($7), ($21), ($7), ($2)	25	85	24	7
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0	1	(1)	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, $0, $0	1	1	1	1
Net actuarial (gain) loss, net of tax of ($9), ($8), ($18), ($17)	31	32	63	63
Total other comprehensive income (loss)	254	302	255	(129)
Comprehensive income	$546	$785	$950	$835

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

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$ 695	$ 964
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	488	460
Amortization	45	37
Defined benefit plans - expense (income)	(45)	(24)
Deferred income taxes and investment tax credits	201	320
Unrealized (gains) losses on derivatives, and other hedging activities	135	(192)
Stock-based compensation expense	22	18
Other	(5)	(11)
Change in current assets and current liabilities		
Accounts receivable	26	16
Accounts payable	(92)	(39)
Unbilled revenues	70	(2)
Fuel, materials and supplies	42	21
Prepayments	(66)	(66)
Counterparty collateral	8	76
Taxes payable	(27)	22
Accrued interest	(77)	(85)
Other current liabilities	(52)	(47)
Other	(14)	(21)
Other operating activities		
Defined benefit plans - funding	(552)	(224)
Other assets	(1)	2
Other liabilities	(11)	(55)
Net cash provided by operating activities	790	1,170

Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,373)	(1,346)
Expenditures for intangible assets	(15)	(14)
Other investing activities	6	13
Net cash used in investing activities	(1,382)	(1,347)
Cash Flows from Financing Activities		
Issuance of long-term debt	594	1,020
Retirement of long-term debt	(60)	(684)
Settlement of cross-currency swaps	—	46
Issuance of common stock	177	76
Payment of common stock dividends	(529)	(513)
Net increase (decrease) in short-term debt	554	(66)
Other financing activities	(25)	(31)
Net cash provided by (used in) financing activities	711	(152)
Effect of Exchange Rates on Cash and Cash Equivalents	7	(15)
Net Increase (Decrease) in Cash and Cash Equivalents	126	(344)
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	$ 467	$ 492
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$ 284	$ 283

Accrued expenditures for intangible assets at June 30,	$ 56	$ 94

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

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$467	$ 341
Accounts receivable (less reserve: 2017, $53; 2016, $54)		
Customer	628	666
Other	85	46
Unbilled revenues	416	480
Fuel, materials and supplies	316	356
Prepayments	131	63
Price risk management assets	69	63
Other current assets	54	52
Total Current Assets	2,166	2,067
Property, Plant and Equipment		
Regulated utility plant	36,173	34,674
Less: accumulated depreciation - regulated utility plant	6,446	6,013
Regulated utility plant, net	29,727	28,661
Non-regulated property, plant and equipment	424	413
Less: accumulated depreciation - non-regulated property, plant and equipment	147	134
Non-regulated property, plant and equipment, net	277	279
Construction work in progress	1,229	1,134
Property, Plant and Equipment, net	31,233	30,074
Other Noncurrent Assets		
Regulatory assets	1,906	1,918
Goodwill	3,139	3,060
Other intangibles	656	700
Pension benefit asset	467	9
Price risk management assets	245	336
Other noncurrent assets	152	151
Total Other Noncurrent Assets	6,565	6,174
Total Assets	$39,964	$ 38,315

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

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

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$1,497	$ 923
Long-term debt due within one year	671	518
Accounts payable	752	820
Taxes	77	101
Interest	196	270
Dividends	271	259
Customer deposits	289	276
Regulatory liabilities	71	101
Other current liabilities	526	569
Total Current Liabilities	4,350	3,837
Long-term Debt	18,397	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,130	3,889
Investment tax credits	131	132
Accrued pension obligations	787	1,001
Asset retirement obligations	343	428
Regulatory liabilities	902	899
Other deferred credits and noncurrent liabilities	434	422
Total Deferred Credits and Other Noncurrent Liabilities	6,727	6,771
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - $0.01 par value (a)	7	7
Additional paid-in capital	10,023	9,841
Earnings reinvested	3,983	3,829
Accumulated other comprehensive loss	(3,523)	(3,778)
Total Equity	10,490	9,899
Total Liabilities and Equity	$39,964	$ 38,315

(a) 1,560,000 shares authorized; 685,473 and 679,731 shares issued and outstanding at June 30, 2017 and December 31, 2016.

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

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

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	$ 7	$ 9,841	$ 3,829	$ (3,778)	$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20)			(20)
Net income				695		695
Dividends and dividend equivalents				(541)		(541)
Other comprehensive income (loss)					255	255
June 30, 2017	685,473	$ 7	$ 10,023	$ 3,983	$ (3,523)	$ 10,490
December 31, 2015	673,857	$ 7	$ 9,687	$ 2,953	$ (2,728)	$ 9,919
Common stock issued	3,692		109			109
Stock-based compensation			(30)			(30)
Net income				964		964
Dividends and dividend equivalents				(515)		(515)
Other comprehensive income (loss)					(129)	(129)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
June 30, 2016	677,549	$ 7	$ 9,766	$ 3,409	$ (2,857)	$ 10,325

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	$500	$495	$1,073	$1,080
Operating Expenses				
Operation				
Energy purchases	107	118	253	285
Other operation and maintenance	138	137	302	287
Depreciation	76	62	151	121
Taxes, other than income	23	24	52	53
Total Operating Expenses	344	341	758	746
Operating Income	156	154	315	334
Other Income (Expense) - net	3	5	4	8
Interest Income from Affiliate	1	—	1	—
Interest Expense	36	32	69	65
Income Before Income Taxes	124	127	251	277
Income Taxes	47	48	95	104
Net Income (a)	$77	$79	$156	$173

(a) Net income equals comprehensive income.

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

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$156	$173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	151	121
Amortization	15	15
Defined benefit plans - expense	7	7
Deferred income taxes and investment tax credits	84	107
Other	(4)	(10)
Change in current assets and current liabilities		
Accounts receivable	13	(6)
Accounts payable	(59)	(26)
Unbilled revenues	17	3
Prepayments	(52)	3
Regulatory assets and liabilities	(12)	(40)
Taxes payable	(4)	(16)
Other	(6)	(6)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	(4)	11
Other liabilities	1	(8)
Net cash provided by operating activities	279	328
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(550)	(424)
Expenditures for intangible assets	(5)	(2)
Net increase in notes receivable from affiliate	(270)	—
Other investing activities	1	(1)
Net cash used in investing activities	(824)	(427)
Cash Flows from Financing Activities		
Issuance of long-term debt	470	224
Retirement of long-term debt	—	(224)
Contributions from parent	575	200
Payment of common stock dividends to parent	(154)	(117)
Net increase (decrease) in short-term debt	(295)	6
Other financing activities	(5)	(2)
Net cash provided by financing activities	591	87
Net Increase (Decrease) in Cash and Cash Equivalents	46	(12)
Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	$59	$35

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$157	$130

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

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$59	$ 13
Accounts receivable (less reserve: 2017, $26; 2016, $28)		
Customer	267	272
Other	12	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	270	—
Unbilled revenues	97	114
Materials and supplies	29	32
Prepayments	61	9
Regulatory assets	14	19
Other current assets	6	8
Total Current Assets	816	488
Property, Plant and Equipment		
Regulated utility plant	10,235	9,654
Less: accumulated depreciation - regulated utility plant	2,814	2,714
Regulated utility plant, net	7,421	6,940
Construction work in progress	593	641
Property, Plant and Equipment, net	8,014	7,581
Other Noncurrent Assets		
Regulatory assets	1,076	1,094
Intangibles	254	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,345	1,357
Total Assets	$10,175	$ 9,426

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

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

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$—	$ 295
Long-term debt due within one year	224	224
Accounts payable	353	367
Accounts payable to affiliates	29	42
Taxes	8	12
Interest	37	34
Regulatory liabilities	57	83
Other current liabilities	88	101
Total Current Liabilities	796	1,158
Long-term Debt	3,074	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,990	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	90	90
Total Deferred Credits and Other Noncurrent Liabilities	2,337	2,270
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154
Earnings reinvested	875	873
Total Equity	3,968	3,391
Total Liabilities and Equity	$10,175	$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2017 and December 31, 2016.

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

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

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	$ 364	$ 2,154	$ 873	$3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154)	(154)
June 30, 2017	66,368	$ 364	$ 2,729	$ 875	$3,968
December 31, 2015	66,368	$ 364	$ 1,934	$ 821	$3,119
Net income				173	173
Capital contributions from PPL			200		200
Dividends declared on common stock				(116)	(116)
June 30, 2016	66,368	$ 364	$ 2,134	$ 878	$3,376

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues	$723	$721	$1,532	$1,547
Operating Expenses				
Operation				
Fuel	183	182	374	380
Energy purchases	29	28	98	94
Other operation and maintenance	192	204	399	406
Depreciation	105	100	210	199
Taxes, other than income	16	15	32	30
Total Operating Expenses	525	529	1,113	1,109
Operating Income	198	192	419	438
Other Income (Expense) - net	(4)	(5)	(6)	(6)
Interest Expense	50	48	99	97
Interest Expense with Affiliate	4	4	8	8
Income Before Income Taxes	140	135	306	327
Income Taxes	53	51	116	123
Net Income	$87	$84	$190	$204

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$87	$84	$190	$204
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of $7, ($1), $7, ($1)	(11)	1	(11)	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0	—	(1)	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, $0, $0	1	1	1	1
Net actuarial loss, net of tax of ($1), ($1), ($2), ($1)	1	1	2	2
Total other comprehensive income (loss)	(9)	2	(7)	3
Comprehensive income	$78	$86	$183	$207

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

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$190	$204
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	210	199
Amortization	14	15
Defined benefit plans - expense	12	13
Deferred income taxes and investment tax credits	91	121
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	13	9
Accounts payable	(28)	28
Unbilled revenues	23	(14)
Fuel, materials and supplies	41	20
Taxes payable	3	(13)
Other	(21)	(23)
Other operating activities		
Defined benefit plans - funding	(29)	(45)
Expenditures for asset retirement obligations	(12)	(8)
Other assets	(2)	1
Other liabilities	6	—
Net cash provided by operating activities	511	506
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(355)	(439)
Net cash used in investing activities	(355)	(439)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4)	123
Issuance of long-term debt	60	—
Retirement of long-term debt	(60)	—
Net increase (decrease) in short-term debt	73	(126)
Debt issuance and credit facility costs	(1)	(1)
Distributions to member	(218)	(114)
Contributions from member	—	37
Net cash used in financing activities	(150)	(81)
Net Increase (Decrease) in Cash and Cash Equivalents	6	(14)
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	$19	$16

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$83	$105

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

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$19	$ 13
Accounts receivable (less reserve: 2017, $25; 2016, $24)		
Customer	221	235
Other	40	17
Unbilled revenues	147	170
Fuel, materials and supplies	257	297
Prepayments	32	24
Regulatory assets	23	20
Other current assets	9	4
Total Current Assets	748	780
Property, Plant and Equipment		
Regulated utility plant	12,852	12,746
Less: accumulated depreciation - regulated utility plant	1,630	1,465
Regulated utility plant, net	11,222	11,281
Construction work in progress	411	317
Property, Plant and Equipment, net	11,633	11,598
Other Noncurrent Assets		
Regulatory assets	830	824
Goodwill	996	996
Other intangibles	90	95
Other noncurrent assets	80	78
Total Other Noncurrent Assets	1,996	1,993
Total Assets	$14,377	$ 14,371

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

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

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$258	$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	225	251
Accounts payable to affiliates	6	6
Customer deposits	57	56
Taxes	42	39
Price risk management liabilities	5	4
Regulatory liabilities	14	18
Interest	31	32
Asset retirement obligations	73	60
Other current liabilities	115	119
Total Current Liabilities	1,083	1,127
Long-term Debt		
Long-term debt	4,569	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,969	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,823	1,735
Investment tax credits	131	132
Accrued pension obligations	344	350
Asset retirement obligations	292	373
Regulatory liabilities	902	899
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	176	190
Total Deferred Credits and Other Noncurrent Liabilities	3,693	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,632	4,667
Total Liabilities and Equity	$14,377	$ 14,371

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

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

	Member's Equity
December 31, 2016	$ 4,667
Net income	190
Distributions to member	(218)
Other comprehensive income	(7)
June 30, 2017	$ 4,632
December 31, 2015	$ 4,517
Net income	204
Contributions from member	37
Distributions to member	(114)
Other comprehensive income	3
June 30, 2016	$ 4,647

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	$320	$317	$694	$692
Electric revenue from affiliate	4	6	21	17
Total Operating Revenues	324	323	715	709
Operating Expenses				
Operation				
Fuel	69	69	149	147
Energy purchases	25	23	89	85
Energy purchases from affiliate	3	3	5	5
Other operation and maintenance	86	92	173	179
Depreciation	45	42	89	83
Taxes, other than income	9	7	17	15
Total Operating Expenses	237	236	522	514
Operating Income	87	87	193	195
Other Income (Expense) - net	1	(5)	(1)	(5)
Interest Expense	19	18	36	35
Income Before Income Taxes	69	64	156	155
Income Taxes	27	24	60	59
Net Income (a)	$42	$40	$96	$96

(a) Net income equals comprehensive income.

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

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$96	$96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	89	83
Amortization	7	6
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	57	62
Change in current assets and current liabilities		
Accounts receivable	9	2
Accounts receivable from affiliates	11	(7)
Accounts payable	(17)	20
Accounts payable to affiliates	(3)	8
Unbilled revenues	14	(1)
Fuel, materials and supplies	33	29
Taxes payable	(23)	—
Other	(3)	(6)
Other operating activities		
Defined benefit plans - funding	(3)	(16)
Expenditures for asset retirement obligations	(7)	(6)
Other assets	—	(4)
Other liabilities	1	3
Net cash provided by operating activities	264	273
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177)	(237)
Net cash used in investing activities	(177)	(237)
Cash Flows from Financing Activities		
Issuance of long-term debt	60	—
Retirement of long-term debt	(60)	—
Net increase (decrease) in short-term debt	38	(32)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(122)	(61)
Contributions from parent	—	47
Net cash used in financing activities	(85)	(47)
Net Increase (Decrease) in Cash and Cash Equivalents	2	(11)
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	$7	$8

Supplemental Disclosure of Cash Flow Information
Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	$40	$69

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

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 7	$ 5
Accounts receivable (less reserve: 2017, $1; 2016, $2)		
Customer	101	109
Other	11	11
Accounts receivable from affiliates	17	28
Unbilled revenues	61	75
Fuel, materials and supplies	110	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	3	1
Total Current Assets	336	393
Property, Plant and Equipment		
Regulated utility plant	5,440	5,357
Less: accumulated depreciation - regulated utility plant	566	498
Regulated utility plant, net	4,874	4,859
Construction work in progress	174	133
Property, Plant and Equipment, net	5,048	4,992
Other Noncurrent Assets		
Regulatory assets	449	450
Goodwill	389	389
Other intangibles	55	59
Other noncurrent assets	17	17
Total Other Noncurrent Assets	910	915
Total Assets	$ 6,294	$ 6,300

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

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

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 207	$ 169
Long-term debt due within one year	98	194
Accounts payable	116	148
Accounts payable to affiliates	23	26
Customer deposits	27	27
Taxes	17	40
Price risk management liabilities	5	4
Regulatory liabilities	4	5
Interest	10	11
Asset retirement obligations	29	41
Other current liabilities	40	36
Total Current Liabilities	576	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,033	974
Investment tax credits	36	36
Accrued pension obligations	49	53
Asset retirement obligations	103	104
Regulatory liabilities	418	419
Price risk management liabilities	25	27
Other deferred credits and noncurrent liabilities	83	87
Total Deferred Credits and Other Noncurrent Liabilities	1,747	1,700
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	344	370
Total Equity	2,450	2,476
Total Liabilities and Equity	$ 6,294	$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2017 and December 31, 2016.

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

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

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	$ 424	$ 1,682	$ 370	$2,476
Net income				96	96
Cash dividends declared on common stock				(122)	(122)
June 30, 2017	21,294	$ 424	$ 1,682	$ 344	$2,450
December 31, 2015	21,294	$ 424	$ 1,611	$ 295	$2,330
Net income				96	96
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(61)	(61)
June 30, 2016	21,294	$ 424	$ 1,658	$ 330	$2,412

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	$403	$404	$838	$855
Electric revenue from affiliate	3	3	5	5
Total Operating Revenues	406	407	843	860
Operating Expenses				
Operation				
Fuel	114	113	225	233
Energy purchases	4	5	9	9
Energy purchases from affiliate	4	6	21	17
Other operation and maintenance	100	107	209	213
Depreciation	61	58	121	116
Taxes, other than income	7	8	15	15
Total Operating Expenses	290	297	600	603
Operating Income	116	110	243	257
Other Income (Expense) - net	(2)	1	(3)	(1)
Interest Expense	24	23	48	47
Income Before Income Taxes	90	88	192	209
Income Taxes	34	34	73	80
Net Income (a)	$56	$54	$119	$129

(a) Net income approximates comprehensive income.

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

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$119	$129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	121	116
Amortization	6	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	70	77
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	5	11
Accounts receivable from affiliates	—	1
Accounts payable	(1)	11
Accounts payable to affiliates	(15)	12
Unbilled revenues	9	(13)
Fuel, materials and supplies	8	(9)
Taxes payable	(29)	(3)
Other	(13)	(11)
Other operating activities		
Defined benefit plans - funding	(21)	(13)
Expenditures for asset retirement obligations	(5)	(2)
Other assets	(3)	(3)
Other liabilities	4	(1)
Net cash provided by operating activities	257	311
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(177)	(201)
Net cash used in investing activities	(177)	(201)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	35	(19)
Debt issuance and credit facility costs	—	(1)
Payment of common stock dividends to parent	(110)	(113)
Contributions from parent	—	20
Net cash used in financing activities	(75)	(113)
Net Increase (Decrease) in Cash and Cash Equivalents	5	(3)
Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	$12	$8
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$43	$36

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

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

	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 12	$ 7
Accounts receivable (less reserve: 2017, $2; 2016, $2)		
Customer	120	126
Other	27	5
Unbilled revenues	86	95
Fuel, materials and supplies	147	154
Prepayments	15	12
Regulatory assets	12	11
Other current assets	6	3
Total Current Assets	425	413
Property, Plant and Equipment		
Regulated utility plant	7,404	7,382
Less: accumulated depreciation - regulated utility plant	1,062	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	236	181
Property, Plant and Equipment, net	6,578	6,598
Other Noncurrent Assets		
Regulatory assets	381	374
Goodwill	607	607
Other intangibles	35	36
Other noncurrent assets	60	57
Total Other Noncurrent Assets	1,083	1,074
Total Assets	$ 8,086	$ 8,085

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

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

	June 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 51	$ 16
Accounts payable	94	78
Accounts payable to affiliates	43	56
Customer deposits	30	29
Taxes	16	45
Regulatory liabilities	10	13
Interest	16	16
Asset retirement obligations	44	19
Other current liabilities	32	36
Total Current Liabilities	336	308
Long-term Debt	2,327	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,242	1,170
Investment tax credits	95	96
Accrued pension obligations	38	62
Asset retirement obligations	189	269
Regulatory liabilities	484	480
Other deferred credits and noncurrent liabilities	42	50
Total Deferred Credits and Other Noncurrent Liabilities	2,090	2,127
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	409	400
Total Equity	3,333	3,323
Total Liabilities and Equity	$ 8,086	$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2017 and December 31, 2016.

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

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

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	$ 308	$ 2,616	$ 400	$ (1)	$3,323
Net income				119		119
Cash dividends declared on common stock				(110)		(110)
Other comprehensive income					1	1
June 30, 2017	37,818	$ 308	$ 2,616	$ 409	$ —	$3,333
December 31, 2015	37,818	$ 308	$ 2,596	$ 383	$ —	$3,287
Capital contributions from LKE			20			20
Net income				129		129
Cash dividends declared on common stock				(113)		(113)
Other comprehensive income (loss)					(1)	(1)
June 30, 2016	37,818	$ 308	$ 2,616	$ 399	$ (1)	$3,322

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

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

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Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2016 is derived from that Registrant's 2016 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2016 Form 10-K. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable (PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and six months ended June 30, 2017, PPL Electric purchased $288 million and $644 million of accounts receivable from alternative energy suppliers. During the three and six months ended June 30, 2016, PPL Electric purchased $297 million and $679 million of accounts receivable from alternative electricity suppliers.

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3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended June 30 are as follows:

	Three Months		Six Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	$502	$563	$1,070	$1,158
Kentucky Regulated	723	721	1,532	1,547
Pennsylvania Regulated	500	495	1,073	1,080
Corporate and Other	—	6	1	11
Total	$1,725	$1,785	$3,676	$3,796
Net Income				
U.K. Regulated (a)	$148	$345	$434	$634
Kentucky Regulated	79	76	174	188
Pennsylvania Regulated	77	78	156	172
Corporate and Other	(12)	(16)	(69)	(30)
Total	$292	$483	$695	$964

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	June 30, 2017	December 31, 2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	$15,798	$ 14,537
Kentucky Regulated	14,043	14,037
Pennsylvania Regulated	10,175	9,426
Corporate and Other (b)	(52)	315
Total	$39,964	$ 38,315

(a) Includes $11.5 billion and $10.8 billion of net PP&E as of June 30, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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

	Three Months		Six Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	$292	$ 483	$695	$ 964
Less amounts allocated to participating securities	—	1	1	3
Net income available to PPL common shareowners - Basic and Diluted	$292	$ 482	$694	$ 961
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	683,846	677,145	682,370	676,293
Add incremental non-participating securities:				
Share-based payment awards	2,510	3,584	2,355	3,480
Weighted-average shares - Diluted EPS	686,356	680,729	684,725	679,773
Basic EPS				
Net Income available to PPL common shareowners	$0.43	$ 0.71	$1.02	$ 1.42
Diluted EPS				
Net Income available to PPL common shareowners	$0.43	$ 0.71	$1.01	$ 1.41

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

	Three Months		Six Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	564	795	1,451	2,920
DRIP	369	370	814	772

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

See Note 7 for additional information on common stock issued under the ATM Program.

For the periods ended June 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Six Months	
	2017	2016	2017	2016
Stock options	696	696	696	696
Performance units	—	78	—	39

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5. Income Taxes

Reconciliations of income taxes for the periods ended June 30 are as follows.
(PPL)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$129	$236	$315	$467
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	9	23	22
Valuation allowance adjustments	—	3	5	9
Impact of lower U.K. income tax rates	(40)	(45)	(88)	(99)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7)	—	(16)	(2)
Impact of the U.K. Finance Acts	(6)	(2)	(9)	(2)
Depreciation not normalized	(2)	(3)	(5)	(4)
Interest benefit on U.K. financing entities	(4)	(4)	(8)	(9)
Stock-based compensation	(4)	(3)	(7)	(11)
Other	—	1	(5)	—
Total increase (decrease)	(53)	(44)	(110)	(96)
Total income taxes	$76	$192	$205	$371

(a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

(PPL Electric)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$44	$44	$88	$97
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	8	17	18
Depreciation not normalized	(2)	(2)	(4)	(3)
Stock-based compensation	(3)	(2)	(5)	(7)
Other	(1)	—	(1)	(1)
Total increase (decrease)	3	4	7	7
Total income taxes	$47	$48	$95	$104

(LKE)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$49	$47	$107	$114
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1)	(1)	(2)	(3)
Total increase (decrease)	4	4	9	9
Total income taxes	$53	$51	$116	$123

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(LG&E)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$24	$ 22	$55	$54
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	2	6	6
Other	—	—	(1)	(1)
Total increase (decrease)	3	2	5	5
Total income taxes	$27	$ 24	$60	$59

(KU)

	Three Months		Six Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$32	$ 31	$67	$ 73
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	7	7
Other	(1)	—	(1)	—
Total increase (decrease)	2	3	6	7
Total income taxes	$34	$ 34	$73	$ 80

6. Utility Rate Regulation

(All Registrants)

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

	PPL		PPL Electric	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	$6	$ 6	$—	$ —
Generation formula rate	10	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	7	3	—	—
Smart meter rider	10	6	10	6
Storm costs	3	5	3	5
Other	1	1	1	1
Total current regulatory assets (a)	$37	$ 39	$14	$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	$920	$ 947	$537	$ 549
Taxes recoverable through future rates	345	340	345	340
Storm costs	40	58	—	10
Unamortized loss on debt	57	61	32	36
Interest rate swaps	124	129	—	—
Accumulated cost of removal of utility plant	162	159	162	159
AROs	245	211	—	—
Other	13	13	—	—

Total noncurrent regulatory assets	$1,906	$ 1,918	$1,076	$ 1,094

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	PPL		PPL Electric	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Liabilities:				
Generation supply charge	$19	$ 23	$19	$ 23
Transmission service charge	6	—	6	—
Universal service rider	14	14	14	14
Transmission formula rate	3	15	3	15
Fuel adjustment clause	13	11	—	—
Act 129 compliance rider	11	17	11	17
Storm damage expense	4	13	4	13
Other	1	8	—	1
Total current regulatory liabilities	$71	$ 101	$57	$ 83
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$703	$ 700	$—	$ —
Power purchase agreement - OVEC (b)	72	75	—	—
Net deferred tax assets	21	23	—	—
Defined benefit plans	27	23	—	—
Interest rate swaps	76	78	—	—
Other	3	—	—	—
Total noncurrent regulatory liabilities	$902	$ 899	$—	$ —

	LKE		LG&E		KU	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	$6	$ 6	$4	$ 6	$2	$ —
Generation formula rate	10	11	—	—	10	11
Gas supply clause	7	3	7	3	—	—
Total current regulatory assets	$23	$ 20	$11	$ 9	$12	$ 11
Noncurrent Regulatory Assets:						
Defined benefit plans	$383	$ 398	$238	$ 246	$145	$ 152
Storm costs	40	48	22	26	18	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	124	129	85	88	39	41
AROs	245	211	84	70	161	141
Plant retirement costs	3	4	—	—	3	4
Other	10	9	4	4	6	5
Total noncurrent regulatory assets	$830	$ 824	$449	$ 450	$381	$ 374

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	LKE		LG&E		KU	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current Regulatory Liabilities:						
Demand side management	$—	$ 3	$—	$ 2	$—	$ 1
Fuel adjustment clause	13	11	4	2	9	9
Other	1	4	—	1	1	3
Total current regulatory liabilities	$14	$ 18	$4	$ 5	$10	$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$703	$ 700	$308	$ 305	$395	$ 395
Power purchase agreement - OVEC (b)	72	75	50	52	22	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Interest rate swaps	76	78	38	39	38	39
Other	3	—	1	—	2	—
Total noncurrent regulatory liabilities	$902	$ 899	$418	$ 419	$484	$ 480

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of $55 million, LG&E base electricity rates of $59 million and LG&E base gas rates of $8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of $52 million, LG&E base electricity rates of $57 million and LG&E base gas rates of $7 million, and incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and

KU's request for implementing a Distribution Automation program and their withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately $15 million ($4 million for LG&E and $11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% at LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

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Gas Franchise (LKE and LG&E)

LG&E’s gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee will revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. Louisville/Jefferson County and LG&E continue to file certain procedural motions, testimony and discovery with the KPSC. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	June 30, 2017					December 31, 2016	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
WPD plc							
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 155	£ —	£ 56	£ 160	£ —
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—
WPD (South West)							
Syndicated Credit Facility (c)	July 2021	245	80	—	165	110	—
WPD (East Midlands)							
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—
WPD (West Midlands)							

Syndicated Credit Facility	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities (e)		90	50	4	36	60	4
Total U.K. Credit Facilities (f)		£ 1,375	£ 631	£ 4	£ 741	£ 339	£ 4

	June 30, 2017					December 31, 2016	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
U.S.							
PPL Capital Funding							
Syndicated Credit Facility	Jan. 2022	$ 950	$ —	$ 424	$ 526	$ —	$ 20
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—
Bilateral Credit Facility	Mar. 2018	150	—	17	133	—	17
Total PPL Capital Funding Credit Facilities		$ 1,400	$ —	$ 441	$ 959	$ —	$ 37
PPL Electric							
Syndicated Credit Facility	Jan. 2022	$ 650	$ —	$ 1	$ 649	$ —	$ 296
LKE							
Syndicated Credit Facility	Oct. 2018	$ 75	$ —	$ —	$ 75	$ —	$ —
LG&E							
Syndicated Credit Facility	Jan. 2022	$ 500	$ —	$ 207	$ 293	$ —	$ 169
KU							
Syndicated Credit Facility	Jan. 2022	$ 400	$ —	$ 51	$ 349	$ —	$ 16
Letter of Credit Facility	Oct. 2017	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 249	$ 349	$ —	$ 214

(a) The amounts borrowed at June 30, 2017 and December 31, 2016 were USD-denominated borrowings of $200 million for both periods, which bore interest at 1.87% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £154 million as of the date borrowed.
(b) The amount borrowed at June 30, 2017 was a GBP-denominated borrowing which equated to $297 million and bore interest at 1.50%.
(c) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to $103 million and $137 million and bore interest at 0.65% and 0.66%.
(d) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to $150 million and $11 million and bore interest at 0.65% and 0.66%.
(e) The amounts borrowed at June 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to $65 million and $75 million and bore interest at 1.07% and 1.26%.
(f) At June 30, 2017, the unused capacity under the U.K. credit facilities was $956 million.

(PPL, LKE and KU)

In August 2017, the expiration date for the KU letter of credit facility was extended to October 2020.

(All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

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	June 30, 2017				December 31, 2016	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.46%	$ 1,000	$ 424	$ 576	1.10%	$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.35%	350	207	143	0.94%	169
KU	1.40%	350	51	299	0.87%	16
Total		$ 2,350	$ 682	$ 1,668		$ 500

(PPL Electric and LKE)

See Note 10 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to $64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued $475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of $466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

(PPL, LKE and LG&E)

In June 2017, the County of Trimble, Kentucky issued $60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem $60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed $128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of $500 million of its common stock. For the periods ended June 30, PPL issued the following:

	Three Months		Six Months	
	2017	2016	2017	2016
Number of shares (in thousands)	2,113	—	3,477	—
Average share price	$39.15	$ —	$38.17	$ —
Net Proceeds	$82	$ —	$132	$ —

Distributions

In May 2017, PPL declared a quarterly common stock dividend, payable July 3, 2017, of 39.5 cents per share (equivalent to $1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and LG&E for the periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2017	2016	2017	2016	2017	2016	2017	2016
PPL								
Service cost	$15	$16	$18	$18	$32	$33	$37	$36
Interest cost	42	44	44	62	84	87	87	124
Expected return on plan assets	(58)	(58)	(127)	(132)	(115)	(114)	(252)	(265)
Amortization of:								
Prior service cost	3	3	—	—	5	4	—	—
Actuarial loss	14	10	36	36	34	25	71	73
Net periodic defined benefit costs (credits) before special termination benefits	16	15	(29)	(16)	40	35	(57)	(32)
Special termination benefits (a)	(1)	—	—	—	1	—	—	—
Net periodic defined benefit costs (credits)	$15	$15	$(29)	$(16)	$41	$35	$(57)	$(32)

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Six Months	
	2017	2016	2017	2016
LKE				
Service cost	$5	$6	$12	$12
Interest cost	18	18	34	35
Expected return on plan assets	(24)	(24)	(46)	(45)
Amortization of:				
Prior service cost	2	3	4	4

Actuarial loss	4	5	15	10
Net periodic defined benefit costs	$5	$ 8	$19	$16

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	Pension Benefits			
	Three Months		Six Months	
	2017	2016	2017	2016
LG&E				
Service cost	$1	$ 1	$1	$ 1
Interest cost	3	4	$6	$ 7
Expected return on plan assets	(6)	(5)	(11)	(10)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss	1	1	4	3
Net periodic defined benefit costs	$—	$ 2	$2	$ 3

	Other Postretirement Benefits			
	Three Months		Six Months	
	2017	2016	2017	2016
PPL				
Service cost	$2	$ 2	$4	$ 4
Interest cost	6	7	12	13
Expected return on plan assets	(5)	(6)	(11)	(11)
Amortization of prior service cost	(1)	—	(1)	—
Net periodic defined benefit costs	$2	$ 3	$4	$ 6
LKE				
Service cost	$1	$ 1	$2	$ 2
Interest cost	2	3	4	5
Expected return on plan assets	(2)	(1)	(3)	(3)
Amortization of prior service cost	—	—	—	1
Net periodic defined benefit costs	$1	$ 3	$3	$ 5

(PPL Electric, LG&E and KU)

In addition to the specific plans it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Six Months	
	2017	2016	2017	2016
PPL Electric	$ 5	$ 5	$13	$ 11
LG&E	2	3	5	5
KU	1	3	5	6

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the six months ended June 30, 2017, WPD contributed $485 million to its U.K. pension plans. These accelerated contributions fund all 2017 required contributions and a portion of 2018 required contributions. WPD does not expect to make additional contributions in 2017.

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9. Commitments and Contingencies

Legal Matters

(All Registrants)

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

WKE Indemnification (PPL and LKE)

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

Cane Run Environmental Claims (PPL, LKE and LG&E)

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E regarding the state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

E.W. Brown Environmental Claims (PPL, LKE and KU)

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant’s water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs’ suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs seek injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act violations, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also seek assessment of civil penalties and an award of litigation costs and attorney fees. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

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(PPL, LKE, LG&E and KU)

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any, but do not expect such costs to be material.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a “special waste” landfill permit. In March 2017, the Sierra Club and a resident adjacent to the plant filed administrative challenges to the landfill permit before the KEEC. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws, but cannot predict the outcome of legal challenges or the potential impact, if any, on plant operations, or future capital or operating costs. However, PPL, LKE, LG&E and KU believe that additional costs, if any, resulting from such legal challenges would be subject to cost recovery.

Regulatory Issues (All Registrants)

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

Electricity - Reliability Standards

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

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

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

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes,

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regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

Federal environmental regulations of these criteria pollutants require states to adopt implementation plans, known as state implementation plans, for certain pollutants, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and the EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2018. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, worked together to evaluate the need for further nitrogen oxide reductions from fossil-fueled plants with SCRs. Based on regulatory developments to date, PPL, LKE, LG&E and KU do not anticipate requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Based on regulatory developments to date, PPL, LKE, LG&E and KU expect that certain previously required compliance measures, such as upgraded or new sulfur dioxide Scrubbers and additional sulfur dioxide limits at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, are sufficient to achieve compliance with the new sulfur dioxide and ozone standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020. Additionally, in March 2017, the President issued an Executive Order (the March 2017 Executive Order) directing the EPA to review proposed and final rules relating to GHG reductions for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules.

The future of these rules is uncertain. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. In February 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted. In addition, the President's March 2017 Executive Order requires the EPA to review the rules for new plants and existing power plants and suspend, revise or rescind them as appropriate.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new natural gas-fired plants could have a significant industry-wide impact.

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance

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through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan is ultimately upheld and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with the EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. The EPA has commenced review of the Clean Power Plan and related actions, as directed by the President's March 2017 Executive Order. In April 2017, in response to a motion filed by the EPA, the D.C. Circuit temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of

RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. In January 2017, Kentucky issued a state rule, effective May 2017, aimed at reflecting the requirements of the federal rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in state court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. PPL, LKE, LG&E and KU cannot predict the outcome of the litigation, but anticipate continued operation under the former program in the event that the new rule is struck down.

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LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 in the Registrants' 2016 Form 10-K for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 15 below and Note 19 in the Registrants' 2016 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In June 2017, the EPA published in the Federal Register a rule that would postpone applicable compliance dates until the agency completes reconsideration of the rule. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's

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ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At June 30, 2017 and December 31, 2016, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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

From time to time, PPL's subsidiaries in the United States undertak