PPL Corp
Form 10-Q
November 01, 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 September 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)	61-0247570

One Quality Street
Lexington, KY 40507-1462
(502) 627-2000

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

PPL Corporation	Yes 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, 688,464,316 shares outstanding at October 25, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 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 October 25, 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 October 25, 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 SEPTEMBER 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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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 - PPL's at-the-market common 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.

LCIDA - Lehigh County Industrial Development Authority.

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.

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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.

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.

Performance Unit - A stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of total shareowner return over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index.

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.

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

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

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

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 access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather 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.

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.

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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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	$1,845	$1,889	$5,521	$5,685
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	143	151	494	531
Other operation and maintenance	397	417	1,217	1,292
Depreciation	257	232	745	692
Taxes, other than income	69	76	214	229
Total Operating Expenses	1,068	1,103	3,246	3,351
Operating Income	777	786	2,275	2,334
Other Income (Expense) - net	(76)	49	(235)	284
Interest Expense	230	223	669	671
Income Before Income Taxes	471	612	1,371	1,947
Income Taxes	116	139	321	510
Net Income	$355	$473	$1,050	$1,437
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	$0.52	$0.70	$1.53	$2.12
Diluted	$0.51	$0.69	$1.53	$2.11
Dividends Declared Per Share of Common Stock	$0.3950	$0.38	$1.185	$1.14
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	686,563	678,114	683,783	676,905
Diluted	688,746	680,348	686,081	679,969

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 (LOSS)
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	$355	$473	$1,050	$1,437
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, ($2), ($1), ($4)	(12)	(641)	195	(837)
Qualifying derivatives, net of tax of $0, ($16), $7, ($9)	1	62	(29)	57
Defined benefit plans:				
Net actuarial gain (loss), net of tax of $2, $4, $9, $3	(3)	(6)	(14)	(4)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of $1, $17, ($6), $15	—	(69)	24	(62)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0	—	—	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($1), ($1)	—	—	1	1
Net actuarial (gain) loss, net of tax of ($10), ($10), ($28), ($27)	34	31	97	94
Total other comprehensive income (loss)	20	(623)	275	(752)
Comprehensive income (loss)	$375	$(150)	$1,325	$685

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)

	Nine Months Ended September 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$1,050	$1,437
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	745	692
Amortization	72	54
Defined benefit plans - expense (income)	(69)	(29)
Deferred income taxes and investment tax credits	284	436
Unrealized (gains) losses on derivatives, and other hedging activities	194	107
Stock-based compensation expense	30	23
Other	(8)	(12)
Change in current assets and current liabilities		
Accounts receivable	25	(29)
Accounts payable	(93)	(40)
Unbilled revenues	81	32
Fuel, materials and supplies	35	8
Prepayments	(37)	(34)
Taxes payable	6	40
Regulatory assets and liabilities, net	(3)	(32)
Accrued interest	49	32
Other current liabilities	(53)	(48)
Other	5	(5)
Other operating activities		
Defined benefit plans - funding	(558)	(345)
Other assets	4	18
Other liabilities	(5)	(75)
Net cash provided by operating activities	1,754	2,230
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,152)	(2,073)
Expenditures for intangible assets	(25)	(23)
Other investing activities	13	30
Net cash used in investing activities	(2,164)	(2,066)
Cash Flows from Financing Activities		
Issuance of long-term debt	1,088	1,241
Retirement of long-term debt	(60)	(905)
Settlement of cross-currency swaps	—	46
Issuance of common stock	275	133
Payment of common stock dividends	(800)	(772)
Net increase (decrease) in short-term debt	269	(268)
Other financing activities	(34)	(33)
Net cash provided by (used in) financing activities	738	(558)

Effect of Exchange Rates on Cash and Cash Equivalents	7	(26)
Net Increase (Decrease) in Cash and Cash Equivalents	335	(420)
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	$676	$416
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	$373	$293
Accrued expenditures for intangible assets at September 30,	$60	$104

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)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 676	$ 341
Accounts receivable (less reserve: 2017, $52; 2016, $54)		
Customer	617	666
Other	96	46
Unbilled revenues	405	480
Fuel, materials and supplies	323	356
Prepayments	101	63
Price risk management assets	57	63
Other current assets	56	52
Total Current Assets	2,331	2,067
Property, Plant and Equipment		
Regulated utility plant	36,678	34,674
Less: accumulated depreciation - regulated utility plant	6,624	6,013
Regulated utility plant, net	30,054	28,661
Non-regulated property, plant and equipment	422	413
Less: accumulated depreciation - non-regulated property, plant and equipment	154	134
Non-regulated property, plant and equipment, net	268	279
Construction work in progress	1,494	1,134
Property, Plant and Equipment, net	31,816	30,074
Other Noncurrent Assets		
Regulatory assets	1,869	1,918
Goodwill	3,134	3,060
Other intangibles	666	700
Pension benefit asset	532	9
Price risk management assets	267	336
Other noncurrent assets	143	151
Total Other Noncurrent Assets	6,611	6,174
Total Assets	$ 40,758	$ 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)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 1,211	$ 923
Long-term debt due within one year	448	518
Accounts payable	838	820
Taxes	110	101
Interest	322	270
Dividends	272	259
Customer deposits	291	276
Regulatory liabilities	87	101
Other current liabilities	570	569
Total Current Liabilities	4,149	3,837
Long-term Debt	19,110	17,808
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,224	3,889
Investment tax credits	130	132
Accrued pension obligations	796	1,001
Asset retirement obligations	312	428
Regulatory liabilities	873	899
Other deferred credits and noncurrent liabilities	472	422
Total Deferred Credits and Other Noncurrent Liabilities	6,807	6,771
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - $0.01 par value (a)	7	7
Additional paid-in capital	10,122	9,841
Earnings reinvested	4,066	3,829
Accumulated other comprehensive loss	(3,503)	(3,778)
Total Equity	10,692	9,899
Total Liabilities and Equity	$ 40,758	$ 38,315

(a) 1,560,000 shares authorized; 688,133 and 679,731 shares issued and outstanding at September 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	8,402		303			303
Stock-based compensation			(22)			(22)
Net income				1,050		1,050
Dividends and dividend equivalents				(813)		(813)
Other comprehensive income (loss)					275	275
September 30, 2017	688,133	$ 7	$ 10,122	$ 4,066	$ (3,503)	$ 10,692
December 31, 2015	673,857	$ 7	$ 9,687	$ 2,953	$ (2,728)	$ 9,919
Common stock issued	5,411		168			168
Stock-based compensation			(31)			(31)
Net income				1,437		1,437
Dividends and dividend equivalents				(773)		(773)
Other comprehensive income (loss)					(752)	(752)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
September 30, 2016	679,268	$ 7	$ 9,824	$ 3,624	$ (3,480)	$ 9,975

(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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	$547	$539	$1,620	$1,619
Operating Expenses				
Operation				
Energy purchases	121	129	374	414
Other operation and maintenance	133	144	435	431
Depreciation	77	64	228	185
Taxes, other than income	27	26	79	79
Total Operating Expenses	358	363	1,116	1,109
Operating Income	189	176	504	510
Other Income (Expense) - net	4	4	8	12
Interest Income from Affiliate	2	—	3	—
Interest Expense	36	32	105	97
Income Before Income Taxes	159	148	410	425
Income Taxes	64	58	159	162
Net Income (a)	$95	$90	$251	$263

(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)

	Nine Months Ended September 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$251	$263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	228	185
Amortization	25	19
Defined benefit plans - expense	10	9
Deferred income taxes and investment tax credits	129	151
Other	(8)	(14)
Change in current assets and current liabilities		
Accounts receivable	7	(6)
Accounts payable	(38)	(1)
Unbilled revenues	30	10
Prepayments	(31)	29
Regulatory assets and liabilities, net	—	(41)
Taxes payable	10	(6)
Other	(9)	(13)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	(2)	15
Other liabilities	(3)	(5)
Net cash provided by operating activities	575	595
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(851)	(739)
Expenditures for intangible assets	(7)	(3)
Net increase in notes receivable from affiliate	(2)	—
Other investing activities	2	2
Net cash used in investing activities	(858)	(740)
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	(231)	(193)
Net increase (decrease) in short-term debt	(295)	130
Other financing activities	(6)	(3)
Net cash provided by financing activities	513	134
Net Increase (Decrease) in Cash and Cash Equivalents	230	(11)

Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	$243	$36
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	$190	$166

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)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 243	$ 13
Accounts receivable (less reserve: 2017, $25; 2016, $28)		
Customer	275	272
Other	10	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	2	—
Unbilled revenues	84	114
Materials and supplies	31	32
Prepayments	40	9
Regulatory assets	14	19
Other current assets	11	8
Total Current Assets	711	488
Property, Plant and Equipment		
Regulated utility plant	10,449	9,654
Less: accumulated depreciation - regulated utility plant	2,880	2,714
Regulated utility plant, net	7,569	6,940
Construction work in progress	699	641
Property, Plant and Equipment, net	8,268	7,581
Other Noncurrent Assets		
Regulatory assets	1,073	1,094
Intangibles	256	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,344	1,357
Total Assets	$ 10,323	$ 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)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ —	$ 295
Long-term debt due within one year	—	224
Accounts payable	397	367
Accounts payable to affiliates	38	42
Taxes	22	12
Interest	38	34
Regulatory liabilities	72	83
Other current liabilities	90	101
Total Current Liabilities	657	1,158
Long-term Debt	3,298	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,036	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	89	90
Total Deferred Credits and Other Noncurrent Liabilities	2,382	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	893	873
Total Equity	3,986	3,391
Total Liabilities and Equity	$ 10,323	$ 9,426

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 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				251	251
Capital contributions from PPL			575		575
Dividends declared on common stock				(231)	(231)
September 30, 2017	66,368	$ 364	$ 2,729	$ 893	$3,986
December 31, 2015	66,368	$ 364	$ 1,934	$ 821	$3,119
Net income				263	263
Capital contributions from PPL			200		200
Dividends declared on common stock				(193)	(193)
September 30, 2016	66,368	$ 364	$ 2,134	$ 891	$3,389

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	$818	$835	$2,350	$2,382
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	22	24	120	118
Other operation and maintenance	199	197	598	603
Depreciation	114	102	324	301
Taxes, other than income	17	16	49	46
Total Operating Expenses	554	566	1,667	1,675
Operating Income	264	269	683	707
Other Income (Expense) - net	1	(3)	(5)	(9)
Interest Expense	49	50	148	147
Interest Expense with Affiliate	5	4	13	12
Income Before Income Taxes	211	212	517	539
Income Taxes	79	79	195	202
Net Income	$132	$133	$322	$337

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$132	$133	$322	$337
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 $0, $0, $7, ($1)	(1)	—	(12)	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)
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($1), ($1)	—	—	1	1
Net actuarial loss, net of tax of $0, $0, ($2), ($1)	1	1	3	3
Total other comprehensive income (loss)	—	1	(7)	4
Comprehensive income	$132	$134	$315	$341

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)

	Nine Months Ended September 30, 2017	2016
Cash Flows from Operating Activities		
Net income	$322	$337
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	324	301
Amortization	19	21
Defined benefit plans - expense	19	20
Deferred income taxes and investment tax credits	173	212
Other	1	—
Change in current assets and current liabilities		
Accounts receivable	18	(43)
Accounts payable	(30)	7
Accounts payable to affiliates	3	4
Unbilled revenues	19	6
Fuel, materials and supplies	34	7
Taxes payable	13	—
Accrued interest	41	42
Other	(1)	(4)
Other operating activities		
Defined benefit plans - funding	(32)	(82)
Expenditures for asset retirement obligations	(22)	(15)
Other assets	5	1
Other liabilities	14	2
Net cash provided by operating activities	920	816
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(579)	(600)
Other investing activities	4	1
Net cash used in investing activities	(575)	(599)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4)	84
Issuance of long-term debt	60	221
Retirement of long-term debt	(60)	(221)
Net increase (decrease) in short-term debt	5	(130)
Debt issuance and credit facility costs	(3)	(3)
Distributions to member	(316)	(224)
Contributions from member	—	37
Net cash used in financing activities	(318)	(236)
Net Increase (Decrease) in Cash and Cash Equivalents	27	(19)
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	$40	$11

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	$142	$86

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)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 40	$ 13
Accounts receivable (less reserve: 2017, $25; 2016, $24)		
Customer	215	235
Other	43	17
Accounts receivable from affiliates	1	—
Unbilled revenues	151	170
Fuel, materials and supplies	264	297
Prepayments	27	24
Regulatory assets	20	20
Other current assets	8	4
Total Current Assets	769	780
Property, Plant and Equipment		
Regulated utility plant	12,906	12,746
Less: accumulated depreciation - regulated utility plant	1,685	1,465
Regulated utility plant, net	11,221	11,281
Construction work in progress	574	317
Property, Plant and Equipment, net	11,795	11,598
Other Noncurrent Assets		
Regulatory assets	796	824
Goodwill	996	996
Other intangibles	88	95
Other noncurrent assets	71	78
Total Other Noncurrent Assets	1,951	1,993
Total Assets	$ 14,515	$ 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)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 190	$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	283	251
Accounts payable to affiliates	8	6
Customer deposits	57	56
Taxes	52	39
Price risk management liabilities	5	4
Regulatory liabilities	15	18
Interest	73	32
Asset retirement obligations	94	60
Other current liabilities	125	119
Total Current Liabilities	1,159	1,127
Long-term Debt		
Long-term debt	4,570	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,970	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,909	1,735
Investment tax credits	130	132
Accrued pension obligations	345	350
Asset retirement obligations	261	373
Regulatory liabilities	873	899
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	178	190
Total Deferred Credits and Other Noncurrent Liabilities	3,720	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,666	4,667
Total Liabilities and Equity	$ 14,515	$ 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	322
Distributions to member	(316)
Other comprehensive income	(7)
September 30, 2017	$ 4,666
December 31, 2015	$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224)
Other comprehensive income	4
September 30, 2016	$ 4,671

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	$361	$366	$1,055	$1,058
Electric revenue from affiliate	2	2	23	19
Total Operating Revenues	363	368	1,078	1,077
Operating Expenses				
Operation				
Fuel	76	86	225	233
Energy purchases	18	19	107	104
Energy purchases from affiliate	3	5	8	10
Other operation and maintenance	89	85	262	264
Depreciation	47	43	136	126
Taxes, other than income	8	9	25	24
Total Operating Expenses	241	247	763	761
Operating Income	122	121	315	316
Other Income (Expense) - net	(1)	(1)	(2)	(6)
Interest Expense	17	18	53	53
Income Before Income Taxes	104	102	260	257
Income Taxes	39	39	99	98
Net Income (a)	$65	$63	$161	$159

(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)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	$161	$159
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	136	126
Amortization	11	10
Defined benefit plans - expense	5	6
Deferred income taxes and investment tax credits	96	117
Change in current assets and current liabilities		
Accounts receivable	12	(17)
Accounts receivable from affiliates	6	(11)
Accounts payable	(12)	24
Accounts payable to affiliates	(10)	(6)
Unbilled revenues	11	10
Fuel, materials and supplies	6	11
Taxes payable	(15)	—
Accrued interest	12	13
Other	6	1
Other operating activities		
Defined benefit plans - funding	(3)	(45)
Expenditures for asset retirement obligations	(13)	(11)
Other assets	5	(3)
Other liabilities	4	(1)
Net cash provided by operating activities	418	383
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(293)	(343)
Net cash used in investing activities	(293)	(343)
Cash Flows from Financing Activities		
Net increase in notes payable with affiliates	10	—
Issuance of long-term debt	60	125
Retirement of long-term debt	(60)	(125)
Net increase (decrease) in short-term debt	21	(14)
Debt issuance and credit facility costs	(2)	(1)
Payment of common stock dividends to parent	(150)	(87)
Contributions from parent	—	47
Net cash used in financing activities	(121)	(55)
Net Increase (Decrease) in Cash and Cash Equivalents	4	(15)
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	$9	$4

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	$83	$46

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)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 9	$ 5
Accounts receivable (less reserve: 2017, $1; 2016, $2)		
Customer	96	109
Other	14	11
Accounts receivable from affiliates	22	28
Unbilled revenues	64	75
Fuel, materials and supplies	137	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	2	1
Total Current Assets	370	393
Property, Plant and Equipment		
Regulated utility plant	5,447	5,357
Less: accumulated depreciation - regulated utility plant	575	498
Regulated utility plant, net	4,872	4,859
Construction work in progress	279	133
Property, Plant and Equipment, net	5,151	4,992
Other Noncurrent Assets		
Regulatory assets	413	450
Goodwill	389	389
Other intangibles	54	59
Other noncurrent assets	13	17
Total Other Noncurrent Assets	869	915
Total Assets	$ 6,390	$ 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)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 190	$ 169
Long-term debt due within one year	98	194
Notes payable with affiliate	10	—
Accounts payable	166	148
Accounts payable to affiliates	17	26
Customer deposits	27	27
Taxes	25	40
Price risk management liabilities	5	4
Regulatory liabilities	5	5
Interest	23	11
Asset retirement obligations	33	41
Other current liabilities	46	36
Total Current Liabilities	645	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,073	974
Investment tax credits	36	36
Accrued pension obligations	47	53
Asset retirement obligations	85	104
Regulatory liabilities	388	419
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	84	87
Total Deferred Credits and Other Noncurrent Liabilities	1,737	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	381	370
Total Equity	2,487	2,476
Total Liabilities and Equity	$ 6,390	$ 6,300

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 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				161	161
Cash dividends declared on common stock				(150)	(150)
September 30, 2017	21,294	$ 424	$ 1,682	$ 381	$2,487
December 31, 2015	21,294	$ 424	$ 1,611	$ 295	$2,330
Net income				159	159
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(87)	(87)
September 30, 2016	21,294	$ 424	$ 1,658	$ 367	$2,449

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	$457	$469	$1,295	$1,324
Electric revenue from affiliate	3	5	8	10
Total Operating Revenues	460	474	1,303	1,334
Operating Expenses				
Operation				
Fuel	126	141	351	374
Energy purchases	4	5	13	14
Energy purchases from affiliate	2	2	23	19
Other operation and maintenance	104	107	313	320
Depreciation	67	59	188	175
Taxes, other than income	9	7	24	22
Total Operating Expenses	312	321	912	924
Operating Income	148	153	391	410
Other Income (Expense) - net	—	(3)	(3)	(4)
Interest Expense	24	24	72	71
Income Before Income Taxes	124	126	316	335
Income Taxes	47	48	120	128
Net Income (a)	$77	$78	$196	$207

(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)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	$196	$207
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	188	175
Amortization	7	10
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	116	122
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	6	(24)
Accounts receivable from affiliates	(1)	—
Accounts payable	(6)	(11)
Accounts payable to affiliates	(16)	2
Unbilled revenues	8	(4)
Fuel, materials and supplies	28	(4)
Taxes payable	(21)	—
Accrued interest	22	22
Other	(6)	2
Other operating activities		
Defined benefit plans - funding	(22)	(19)
Expenditures for asset retirement obligations	(9)	(4)
Other assets	—	(4)
Other liabilities	8	(4)
Net cash provided by operating activities	501	469
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(283)	(255)
Net increase in notes receivable with affiliates	(10)	—
Other investing activities	4	1
Net cash used in investing activities	(289)	(254)
Cash Flows from Financing Activities		
Issuance of long-term debt	—	96
Retirement of long-term debt	—	(96)
Net decrease in short-term debt	(16)	(41)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(171)	(197)
Contributions from parent	—	20
Net cash used in financing activities	(188)	(219)
Net Increase (Decrease) in Cash and Cash Equivalents	24	(4)

Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	$31	$7
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	$58	$40

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)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 31	$ 7
Accounts receivable (less reserve: 2017, $1; 2016, $2)		
Customer	119	126
Other	28	5
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	10	—
Unbilled revenues	87	95
Fuel, materials and supplies	127	154
Prepayments	14	12
Regulatory assets	9	11
Other current assets	6	3
Total Current Assets	432	413
Property, Plant and Equipment		
Regulated utility plant	7,452	7,382
Less: accumulated depreciation - regulated utility plant	1,110	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	293	181
Property, Plant and Equipment, net	6,635	6,598
Other Noncurrent Assets		
Regulatory assets	383	374
Goodwill	607	607
Other intangibles	34	36
Other noncurrent assets	55	57
Total Other Noncurrent Assets	1,079	1,074
Total Assets	$ 8,146	$ 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)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ —	$ 16
Accounts payable	105	78
Accounts payable to affiliates	42	56
Customer deposits	30	29
Taxes	24	45
Regulatory liabilities	10	13
Interest	38	16
Asset retirement obligations	61	19
Other current liabilities	35	36
Total Current Liabilities	345	308
Long-term Debt	2,328	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,289	1,170
Investment tax credits	94	96
Accrued pension obligations	37	62
Asset retirement obligations	176	269
Regulatory liabilities	485	480
Other deferred credits and noncurrent liabilities	43	50
Total Deferred Credits and Other Noncurrent Liabilities	2,124	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	425	400
Total Equity	3,349	3,323
Total Liabilities and Equity	$ 8,146	$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 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				196		196
Cash dividends declared on common stock				(171)		(171)
Other comprehensive income					1	1
September 30, 2017	37,818	$ 308	$ 2,616	$ 425	$ —	$3,349
December 31, 2015	37,818	$ 308	$ 2,596	$ 383	$ —	$3,287
Capital contributions from LKE			20			20
Net income				207		207
Cash dividends declared on common stock				(197)		(197)
Other comprehensive income (loss)					(1)	(1)
September 30, 2016	37,818	$ 308	$ 2,616	$ 393	$ (1)	$3,316

(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 nine months ended September 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

(PPL and PPL Electric)

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

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 nine months ended September 30, 2017, PPL Electric purchased $324 million and $968 million of accounts receivable from alternative energy suppliers. During the three and nine months ended September 30, 2016, PPL Electric purchased $365 million and $1.0 billion 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 September 30 are as follows:

	Three Months		Nine Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	$477	$515	$1,547	$1,673
Kentucky Regulated	818	835	2,350	2,382
Pennsylvania Regulated	547	539	1,620	1,619
Corporate and Other	3	—	4	11
Total	$1,845	$1,889	$5,521	$5,685
Net Income				
U.K. Regulated (a)	$126	$281	$560	$915
Kentucky Regulated	125	126	299	314
Pennsylvania Regulated	95	91	251	263
Corporate and Other	9	(25)	(60)	(55)
Total	$355	$473	$1,050	$1,437

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

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

	September 30, 2017	December 31, 2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	$ 16,052	$ 14,537
Kentucky Regulated	14,181	14,037
Pennsylvania Regulated	10,323	9,426
Corporate and Other (b)	202	315
Total	$ 40,758	$ 38,315

(a) Includes $11.7 billion and $10.8 billion of net PP&E as of September 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 September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	$355	$ 473	$1,050	$1,437
Less amounts allocated to participating securities	1	1	2	4
Net income available to PPL common shareowners - Basic and Diluted	$354	$ 472	$1,048	$1,433
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	686,563	678,114	683,783	676,905
Add incremental non-participating securities:				
Share-based payment awards	2,183	2,234	2,298	3,064
Weighted-average shares - Diluted EPS	688,746	680,348	686,081	679,969
Basic EPS				
Net Income available to PPL common shareowners	$0.52	$ 0.70	$1.53	$2.12
Diluted EPS				
Net Income available to PPL common shareowners	$0.51	$ 0.69	$1.53	$2.11

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

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	256	248	1,707	3,168
DRIP	355	761	1,169	1,533

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

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock options	696	696	696	696
Performance units	—	316	—	210

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5. Income Taxes

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

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$165	$214	$480	$681
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	13	37	37
Valuation allowance adjustments	4	4	9	13
Impact of lower U.K. income tax rates	(45)	(37)	(133)	(136)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(8)	(1)	(24)	(3)
Impact of the U.K. Finance Acts (b)	(3)	(42)	(12)	(42)
Depreciation not normalized	(2)	—	(7)	(6)
Interest benefit on U.K. financing entities	(4)	(4)	(12)	(13)
Stock-based compensation	—	(1)	(7)	(12)
Other	(5)	(7)	(10)	(9)
Total increase (decrease)	(49)	(75)	(159)	(171)
Total income taxes	$116	$139	$321	$510

(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.

(b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

(PPL Electric)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$56	$52	$144	$149
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	9	26	27
Depreciation not normalized	(1)	(2)	(5)	(5)
Stock-based compensation	—	—	(5)	(7)
Other	—	(1)	(1)	(2)
Total increase (decrease)	8	6	15	13
Total income taxes	$64	$58	$159	$162

(LKE)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$74	$74	$181	$189
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	8	19	20
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Stock-based compensation	—	(1)	(1)	(2)

Other	(2)	(1)	(2)	(3)
Total increase (decrease)	5	5	14	13
Total income taxes	$79	$79	$195	$202

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(LG&E)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$36	$36	$91	$90
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	4	10	10
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	3	3	8	8
Total income taxes	$39	$39	$99	$98

(KU)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$43	$44	$111	$117
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	4	4	9	11
Total income taxes	$47	$48	$120	$128

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	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	$4	$ 6	$—	$ —
Generation formula rate	8	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	6	3	—	—
Smart meter rider	12	6	12	6
Storm costs	1	5	1	5
Other	3	1	1	1
Total current regulatory assets (a)	$34	$ 39	$14	$ 19
Noncurrent Regulatory Assets:				
Defined benefit plans	$908	$ 947	$530	$ 549
Taxes recoverable through future rates	347	340	347	340
Storm costs	37	57	—	9
Unamortized loss on debt	55	61	30	36
Interest rate swaps	29	31	—	—
Terminated interest rate swaps	93	98	—	—
Accumulated cost of removal of utility plant	166	159	166	159

AROs	224	211	—	—
Other	10	14	—	1
Total noncurrent regulatory assets	$1,869	$ 1,918	$1,073	$ 1,094

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	PPL		PPL Electric	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:				
Generation supply charge	$ 29	$ 23	$ 29	$ 23
Transmission service charge	6	—	6	—
Universal service rider	19	14	19	14
Transmission formula rate	4	15	4	15
Fuel adjustment clause	11	11	—	—
Act 129 compliance rider	7	17	7	17
Storm damage expense	7	13	7	13
Other	4	8	—	1
Total current regulatory liabilities	$ 87	$ 101	$ 72	$ 83
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 678	$ 700	$ —	$ —
Power purchase agreement - OVEC (b)	69	75	—	—
Net deferred tax assets	21	23	—	—
Defined benefit plans	27	23	—	—
Terminated interest rate swaps	74	78	—	—
Other	4	—	—	—
Total noncurrent regulatory liabilities	$ 873	$ 899	$ —	$ —

	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	$ 4	$ 6	$ 4	$ 6	$ —	$ —
Generation formula rate	8	11	—	—	8	11
Gas supply clause	6	3	6	3	—	—
Other	2	—	1	—	1	—
Total current regulatory assets	$ 20	$ 20	$ 11	$ 9	$ 9	$ 11
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 378	$ 398	$ 235	$ 246	$ 143	$ 152
Storm costs	37	48	20	26	17	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	29	31	29	31	—	—
Terminated interest rate swaps	93	98	54	57	39	41
AROs	224	211	57	70	167	141
Plant retirement costs	2	4	—	—	2	4
Other	8	9	2	4	6	5
Total noncurrent regulatory assets	$ 796	$ 824	$ 413	$ 450	$ 383	$ 374

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	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:						
Demand side management	$ —	$ 3	$ —	$ 2	$ —	$ 1
Fuel adjustment clause	11	11	3	2	8	9
Other	4	4	2	1	2	3
Total current regulatory liabilities	$ 15	$ 18	$ 5	$ 5	$ 10	$ 13
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 678	$ 700	$ 281	$ 305	$ 397	$ 395
Power purchase agreement - OVEC (b)	69	75	48	52	21	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	4	—	1	—	3	—
Total noncurrent regulatory liabilities	$ 873	$ 899	$ 388	$ 419	$ 485	$ 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 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. On September 28, 2017, oral arguments were heard by the KPSC and a final order is expected in 2017. 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:

	September 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	£ —	£ 54	£ 160	£ —
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—
WPD (South West)							
Syndicated Credit Facility (c)	July 2021	245	—	—	245	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)		100	70	4	26	60	4
Total U.K. Credit Facilities (f)		£ 1,385	£ 571	£ 4	£ 809	£ 339	£ 4

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	September 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	$ —	$ 285	$ 665	$ —	$ 20
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—
Bilateral Credit Facility	Mar. 2018	150	—	18	132	—	17
Total PPL Capital Funding Credit Facilities		$ 1,400	$ —	$ 303	$ 1,097	$ —	$ 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	$ —	$ 190	$ 310	$ —	$ 169
KU							
Syndicated Credit Facility	Jan. 2022	$ 400	$ —	$ —	$ 400	$ —	$ 16
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 198	$ 400	$ —	$ 214

(a) The amounts borrowed at September 30, 2017 and December 31, 2016 were USD-denominated borrowings of $200 million for both periods, which bore interest at 2.06% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed.

(b) The amount borrowed at September 30, 2017 was a GBP-denominated borrowing which equated to $296 million and bore interest at 1.50%.

(c) The amount borrowed at December 31, 2016 was a GBP-denominated borrowing which equated to $137 million and bore interest at 0.66%.

(d) The amounts borrowed at September 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 September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to $90 million and $75 million and bore interest at 1.29% and 1.26%.

(f) At September 30, 2017, the unused capacity under the U.K. credit facilities was $1.0 billion.

(PPL, LKE and LG&E)

In October 2017, LG&E entered into a $200 million term loan credit facility expiring in 2019. On October 26, 2017, LG&E borrowed $100 million under this facility bearing interest of 1.74%. The proceeds will be used to repay short-term debt and for general corporate purposes.

(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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	September 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	1.41%	$ 1,000	$ 285	$ 715	1.10%	$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.38%	350	190	160	0.94%	169
KU		350	—	350	0.87%	16
Total		$ 2,350	$ 475	$ 1,875		$ 500

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

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.

In September 2017, PPL Capital Funding issued $500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of $490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and 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.

In August 2017, the LCIDA remarketed $108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed $116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

(PPL, LKE and LG&E)

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 previously issued 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.

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 previously issued

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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 previously issued 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.

(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 September 30, PPL issued the following:

	Three Months		Nine Months	
	2017	2016	2017	2016
Number of shares (in thousands)	2,049	710	5,526	710
Average share price	$39.04	$35.23	$38.49	$35.23
Net Proceeds	$79	$25	$211	$25

Distributions

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 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 September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2017	2016	2017	2016	2017	2016	2017	2016
PPL								
Service cost	$17	$16	$20	$17	$49	$49	$57	$53
Interest cost	42	44	45	58	126	131	132	182
Expected return on plan assets	(58)	(57)	(130)	(124)	(173)	(171)	(382)	(389)
Amortization of:								
Prior service cost	2	2	—	—	7	6	—	—
Actuarial loss	18	12	36	34	52	37	107	107
Net periodic defined benefit costs (credits) before settlements and special termination benefits	21	17	(29)	(15)	61	52	(86)	(47)

Settlements (a)	7	3	—	—	7	3	—	—
Special termination benefits (b)	—	—	—	—	1	—	—	—
Net periodic defined benefit costs (credits)	$28	$20	$(29)	$(15)	$69	$55	$(86)	$(47)

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(a) 2017 includes settlement charges of $5 million from the LG&E qualified pension plan and $2 million from the PPL non-qualified pension plan and 2016 includes a settlement charge of $3 million from the PPL non-qualified pension plan. These settlements resulted from lump sum payments that exceeded service cost and interest cost components of net periodic pension cost for the year.

(b) 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		Nine Months	
	2017	2016	2017	2016
LKE				
Service cost	$6	$ 6	$18	$18
Interest cost	17	18	51	53
Expected return on plan assets	(23)	(23)	(69)	(68)
Amortization of:				
Prior service cost	2	2	6	6
Actuarial loss (a)	8	5	23	15
Net periodic defined benefit costs before settlements	10	8	29	24
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	$15	$ 8	$34	$24
LG&E				
Service cost	$—	$ —	$1	$1
Interest cost	3	4	9	11
Expected return on plan assets	(5)	(5)	(16)	(15)
Amortization of:				
Prior service cost	1	1	3	3
Actuarial loss (a)	3	2	7	5
Net periodic defined benefit costs before settlements	2	2	4	5
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	$7	$ 2	$9	$5

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was $3 million and $8 million for the three and nine months ended September 30, 2017 and $4 million for the nine months ended September 30, 2016. The difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was $1 million and $3 million for the three and nine months ended September 30, 2017 and $1 million for the three months ended September 30, 2016. These differences are recorded as regulatory assets.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

Other Postretirement Benefits			
Three Months		Nine Months	
2017	2016	2017	2016

PPL				
Service cost	$2	$ 2	$6	$ 6
Interest cost	5	6	17	19
Expected return on plan assets	(6)	(6)	(17)	(17)
Amortization of prior service cost	—	—	(1)	—
Amortization of actuarial loss	1	1	1	1
Net periodic defined benefit costs	$2	$ 3	$6	$ 9

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

(PPL Electric, LG&E and KU)

In addition to the specific plan 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. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 10 for more information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric	$ 6	$ 6	$ 19	$ 17
LG&E	3	2	8	7
KU	2	2	7	8

Expected Cash Flows - U.K. Pension Plans

(PPL)

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

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

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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.

(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.

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 which were subsequently dismissed by agreed order entered in August 2017. 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.

Regulatory Issues (All Registrants)

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

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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, 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)

NAAQS

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. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation.

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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.

Ozone

The EPA issued the current ozone standard in October 2015. Under the Clean Air Act, the states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment demonstrations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. While implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with 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. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. While PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current 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. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide 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.

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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 not significant and 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, in 2015 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, industry groups and individual companies, including LKE. The D.C. Circuit has temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. 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. In October 2017, the EPA proposed to rescind the rule and may seek comment on a possible replacement rule.

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 under all operating modes, such as frequent start-ups and shutdowns. The preclusion of new coal-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 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 ultimately remains in place in its current form, 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. 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.

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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)

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.

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.

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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 September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. 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. 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 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.

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At September 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 undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 53 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

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

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(All Registrants)

The table below details guarantees provided as of September 30, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2017 was $21 million for PPL and $16 million for LKE. The total recorded liability at December 31, 2016 was $22 million for PPL and $17 million for LKE. See footnote (e) below for information regarding a settlement in principle for certain LKE indemnifications. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at September 30, 2017		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 10	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	95	(c)	
PPL Electric			
Guarantee of inventory value	17	(d)	2018
LKE			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023
LG&E and KU			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

(a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

(b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.

(d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.

(e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of $200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of $100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnifications in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have conducted certain settlement discussions and reached a settlement in principle to resolve all claims for an aggregate amount within LKE's recorded liability, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

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(f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was $118 million at September 30, 2017, consisting of LG&E's share of $82 million and KU's share of $36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of $225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

10. Related Party Transactions

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other, as applicable, with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended September 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric from PPL Services	$43	$ 33	$138	$ 98
LKE from PPL Services	4	4	15	13
PPL Electric from PPL EU Services	15	17	48	50
LG&E from LKS	38	40	120	128
KU from LKS	43	46	134	151

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overhead costs associated with union and hourly employees performing work for the other company, charges related to jointly owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a $400 million revolving line of credit with a PPL Electric subsidiary. At September 30, 2017, $2 million was outstanding and reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at September 30, 2017 was 2.98%.

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(LKE)

LKE maintains a $225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2017 and December 31, 2016, $159 million and $163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at September 30, 2017 and December 31, 2016 were 2.73% and 2.12%.

LKE maintains a $400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, $10 million was outstanding and was reflected in "Notes payable with affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding borrowings at September 30, 2017 was 1.46%. Interest expense incurred on the money pool agreement with KU was not significant for the three and nine months ended September 30, 2017.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, KU had no payable balance outstanding, but had a $10 million receivable balance outstanding, which was reflected in "Notes receivable from affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding receivable at September, 30, 2017 was 1.46%. Interest income incurred on the money pool agreement with LG&E was not significant for the three and nine months ended September 30, 2017.

Other (PPL Electric, LG&E and KU)

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

"Other Income (Expense) - net" for the three and nine months ended September 30, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$676	$676	$—	$—	$341	$341	$—	$—
Restricted cash and cash equivalents (a)	24	24	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	164	—	164	—	211	—	211	—
Cross-currency swaps	160	—	160	—	188	—	188	—
Total price risk management assets	324	—	324	—	399	—	399	—
Total assets	$1,024	$700	$324	$—	$766	$367	$399	$—
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	$31	$—	$31	$—	$31	$—	$31	$—
Foreign currency contracts	167	—	167	—	27	—	27	—
Total price risk management liabilities	$198	$—	$198	$—	$58	$—	$58	$—
PPL Electric								
Assets								
Cash and cash equivalents	$243	$243	$—	$—	$13	$13	$—	$—
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	$245	$245	$—	$—	$15	$15	$—	$—
LKE								
Assets								
Cash and cash equivalents	$40	$40	$—	$—	$13	$13	$—	$—
Cash collateral posted to counterparties (c)	1	1	—	—	3	3	—	—
Total assets	$41	$41	$—	$—	$16	$16	$—	$—
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$29	$—	$29	$—	$31	$—	$31	$—
Total price risk management liabilities	$29	$—	$29	$—	$31	$—	$31	$—
LG&E								
Assets								
Cash and cash equivalents	$9	$9	$—	$—	$5	$5	$—	$—
Cash collateral posted to counterparties (c)	1	1	—	—	3	3	—	—
Total assets	$10	$10	$—	$—	$8	$8	$—	$—
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$29	$—	$29	$—	$31	$—	$31	$—
Total price risk management liabilities	$29	$—	$29	$—	$31	$—	$31	$—

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	$31	$ 31	$ —	$ —	$7	$ 7	$ —	$ —
Total assets	$31	$ 31	$ —	$ —	$7	$ 7	$ —	$ —

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

(b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	$19,558	$23,357	$18,326	$21,355
PPL Electric	3,298	3,724	2,831	3,148
LKE	5,068	5,592	5,065	5,439
LG&E	1,619	1,768	1,617	1,710
KU	2,328	2,602	2,327	2,514

(a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and

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chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements (PPL, LKE and LG&E)

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a $17 million obligation to return cash collateral under master netting arrangements at September 30, 2017 and a $19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

PPL, LKE and LG&E posted $1 million and $3 million of cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges (PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2017, PPL held an

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aggregate notional value in interest rate swap contracts of £188 million (approximately $242 million based on spot rates) that mature in 2027 to hedge the interest payments of anticipated WPD debt issuances. These swaps require a mandatory early redemption on or before November 30, 2017.

For the three and nine months ended September 30, 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For the three months ended September 30, 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives and for the nine months ended September 30, 2016, PPL had an insignificant amount of hedge ineffectiveness associated with interest rate derivatives.

At September 30, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three and nine months ended September 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and nine months ended September 30, 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At September 30, 2017, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2017, LG&E held contracts with a notional amount of $147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at September 30, 2017 had a notional amount of £92 million (approximately $125 million based on contracted rates). These contracts mature in December 2017.

At September 30, 2017 and December 31, 2016, PPL had $22 million and $21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

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Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2017, the total exposure hedged by PPL was approximately £2.7 billion (approximately $3.7 billion based on contracted rates). These contracts had termination dates ranging from October 2017 through April 2020.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2017 and December 31, 2016.

See Note 1 in each Registrant's 2016 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2017				December 31, 2016			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps (b)	$—	$ 2	$—	$ 5	$—	$ —	$—	$ 4
Cross-currency swaps (b)	28	—	—	—	32	—	—	—
Foreign currency contracts	1	—	28	86	—	—	31	21
Total current	29	2	28	91	32	—	31	25
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	24	—	—	—	27
Cross-currency swaps (b)	132	—	—	—	156	—	—	—
Foreign currency contracts	—	—	135	81	—	—	180	6
Total noncurrent	132	—	135	105	156	—	180	33
Total derivatives	$161	$ 2	$163	$ 196	$188	$ —	$211	$ 58

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance

Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2017.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Nine Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Nine Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ —	$ (2)	Interest expense	$ (2)	$ —	$ (6)	$ (1)
Cross-currency swaps	1	(34)	Interest expense	1	—	1	—
			Other income (expense) - net	2	—	(24)	—
Total	$ 1	$ (36)		$ 1	$ —	$ (29)	$ (1)
Net Investment Hedges:							
Foreign currency contracts	$ 1	$ 1					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	$ (81)	$ (237)
Interest rate swaps	Interest expense	(1)	(4)
	Total	$ (82)	$ (241)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ 1	$ 2

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2016.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Nine Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Nine Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ —	$ (21)	Interest expense	$ (2)	$ —	$ (5)	$ —

Cross-currency swaps	78	87	Interest expense	2	—	2	—
			Other income (expense) - net	86	—	80	—
Total	$ 78	$ 66		$ 86	$ —	$ 77	$ —
Net Investment Hedges:							
Foreign currency contracts	$ —	$ 4					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	$ 49	$ 280
Interest rate swaps	Interest expense	(2)	(6)
	Total	$ 47	$ 274

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ 2	$ (7)

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	September 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	$ —	$ 5	$ —	$ 4
Total current	—	5	—	4
Noncurrent:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	—	24	—	27
Total noncurrent	—	24	—	27
Total derivatives	$ —	$ 29	$ —	$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	$ (1)	$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ 1	$ 2

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2016.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	$ (2)	$ (6)

Location of Gain (Loss) Recognized in

Derivative Instruments	Regulatory Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ 2	$ (7)

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(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
September 30, 2017								
Treasury Derivatives								
PPL	$324	$ 138	$ 17	$169	$198	$ 138	$ 1	$59
LKE	—	—	—	—	29	—	1	28
LG&E	—	—	—	—	29	—	1	28
December 31, 2016								
Treasury Derivatives								
PPL	$399	$27	$19	$353	$58	$27	$3	$28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At September 30, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

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	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	$ 43	$ 11	$ 11
Aggregate fair value of collateral posted on these derivative instruments	1	1	1
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	42	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the nine months ended September 30, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2016	$ 488	$ 433	$ 145	$ 288
Accretion	16	15	5	10
Effect of foreign exchange rates	2	—	—	—
Changes in estimated timing or cost	(70)	(63)	(12)	(51)
Obligations settled	(30)	(30)	(20)	(10)
Balance at September 30, 2017	$ 406	$ 355	$ 118	$ 237

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

LKE recorded decreases of $66 million ($56 million at KU and $10 million at LG&E) to the existing AROs during the nine months ended September 30, 2017 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

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16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended September 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans Prior service costs	Defined benefit plans Actuarial gain (loss)	Total
PPL						
June 30, 2017	$ (1,420)	$ (13)	$ —	$ (7)	$ (2,083)	$ (3,523)
Amounts arising during the period	(12)	1	—	—	(3)	(14)
Reclassifications from AOCI	—	—	—	—	34	34
Net OCI during the period	(12)	1	—	—	31	20
September 30, 2017	$ (1,432)					