PPL Corp
Form 10-Q
August 07, 2018

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2018.
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, 699,570,660 shares outstanding at July 31, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 2018.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 31, 2018.

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

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

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FOR THE QUARTER ENDED JUNE 30, 2018

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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' financial statements 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. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect 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, an indirect 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-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2017 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2017.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized 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 (AEPS).

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.

Adjusted Gross 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).

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.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

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.

CPIH - Consumer Price Index including owner-occupiers' housing costs. An aggregate measure of changes in the cost of living in the U.K., including a measure of owner-occupiers' housing costs.

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.

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DNO - Distribution Network Operator in the U.K.

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

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

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM 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.

DUoS - Distribution Use of System, the charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

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.

HB 487 - House Bill 487. Comprehensive Kentucky state tax legislation enacted on April 27, 2018.

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.

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

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

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MPR - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users. On April 30, 2018, Ofgem decided not to engage in a mid-period review of the RIIO-ED1 price-control period.

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.

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 capacities of 2,120 MW.

Performance unit - 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 (i) total shareowner return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

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

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

PP&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been and continue to be 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.

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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.

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.

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

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.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

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

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

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.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501(c)(9) used by employers to fund and pay eligible medical, life and similar benefits.

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 2017 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 and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal, or U.K. tax laws or regulations, including the TCJA;
- 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;
- developments related to ongoing negotiations regarding 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 any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	$1,848	$1,725	$3,974	$3,676
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	148	136	389	351
Other operation and maintenance	506	432	974	902
Depreciation	273	246	542	488
Taxes, other than income	74	70	157	145
Total Operating Expenses	1,190	1,067	2,465	2,260
Operating Income	658	658	1,509	1,416
Other Income (Expense) - net	234	(68)	191	(77)
Interest Expense	235	222	474	439
Income Before Income Taxes	657	368	1,226	900
Income Taxes	142	76	259	205
Net Income	$515	$292	$967	$695
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	$0.74	$0.43	$1.39	$1.02
Diluted	$0.73	$0.43	$1.38	$1.01
Dividends Declared Per Share of Common Stock	$0.41	$0.395	$0.82	$0.79
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	699,006	683,841	696,772	682,370
Diluted	700,976	686,351	698,161	684,725

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$515	$292	$967	$695
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of ($2), $0, ($2), ($1)	(250)	231	(134)	207
Qualifying derivatives, net of tax of ($4), $5, $0, $7	19	(24)	(1)	(30)
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, $0, $0	(1)	—	(1)	—
Net actuarial gain (loss), net of tax of $0, $7, $0, $7	—	(11)	(1)	(11)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of $3, ($7), $1, ($7)	(19)	25	(7)	24
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 $0, $0, $0, $0	1	1	1	1
Net actuarial (gain) loss, net of tax of ($9), ($9), ($18), ($18)	34	31	70	63
Total other comprehensive income (loss)	(216)	254	(73)	255
Comprehensive income	$299	$546	$894	$950

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$967	$695
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	542	488
Amortization	34	45
Defined benefit plans - (income)	(101)	(45)
Deferred income taxes and investment tax credits	171	201
Unrealized (gains) losses on derivatives, and other hedging activities	(91)	135
Stock-based compensation expense	16	22
Other	(9)	(5)
Change in current assets and current liabilities		
Accounts receivable	46	26
Accounts payable	(90)	(92)
Unbilled revenues	91	70
Fuel, materials and supplies	32	42
Prepayments	(60)	(66)
Taxes payable	28	(27)
Regulatory assets and liabilities, net	42	(19)
Accrued interest	(79)	(77)
Other current liabilities	(47)	(52)
Other	(16)	13
Other operating activities		
Defined benefit plans - funding	(206)	(552)
Proceeds from transfer of excess benefit plan funds	65	—
Other assets	(67)	(1)
Other liabilities	57	(11)
Net cash provided by operating activities	1,325	790
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,527)	(1,373)
Purchase of available-for-sale securities	(65)	—
Other investing activities	(57)	(12)
Net cash used in investing activities	(1,649)	(1,385)
Cash Flows from Financing Activities		
Issuance of long-term debt	584	594
Retirement of long-term debt	(250)	(60)
Issuance of common stock	147	177
Payment of common stock dividends	(558)	(529)
Net increase in short-term debt	788	554
Other financing activities	(16)	(25)
Net cash provided by financing activities	695	711

Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(7)	7
Net Increase in Cash, Cash Equivalents and Restricted Cash	364	123
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	367
Cash, Cash Equivalents and Restricted Cash at End of Period	$875	$490
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$329	$284
Accrued expenditures for intangible assets at June 30,	$59	$56

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

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

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$852	$ 485
Accounts receivable (less reserve: 2018, $55; 2017, $51)		
Customer	675	681
Other	66	100
Unbilled revenues	453	543
Fuel, materials and supplies	288	320
Prepayments	126	66
Price risk management assets	78	49
Other current assets	62	50
Total Current Assets	2,600	2,294
Property, Plant and Equipment		
Regulated utility plant	38,999	38,228
Less: accumulated depreciation - regulated utility plant	7,083	6,785
Regulated utility plant, net	31,916	31,443
Non-regulated property, plant and equipment	370	384
Less: accumulated depreciation - non-regulated property, plant and equipment	108	110
Non-regulated property, plant and equipment, net	262	274
Construction work in progress	1,645	1,375
Property, Plant and Equipment, net	33,823	33,092
Other Noncurrent Assets		
Regulatory assets	1,530	1,504
Goodwill	3,308	3,258
Other intangibles	694	697
Pension benefit asset	498	284
Price risk management assets	185	215
Other noncurrent assets	192	135
Total Other Noncurrent Assets	6,407	6,093
Total Assets	$42,830	$ 41,479

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

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

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$1,864	$ 1,080
Long-term debt due within one year	203	348
Accounts payable	804	924
Taxes	132	105
Interest	203	282
Dividends	287	273
Customer deposits	271	292
Regulatory liabilities	137	95
Other current liabilities	547	624
Total Current Liabilities	4,448	4,023
Long-term Debt	20,217	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,632	2,462
Investment tax credits	128	129
Accrued pension obligations	665	800
Asset retirement obligations	297	312
Regulatory liabilities	2,747	2,704
Other deferred credits and noncurrent liabilities	456	441
Total Deferred Credits and Other Noncurrent Liabilities	6,925	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - $0.01 par value (a)	7	7
Additional paid-in capital	10,462	10,305
Earnings reinvested	4,266	3,871
Accumulated other comprehensive loss	(3,495)	(3,422)
Total Equity	11,240	10,761
Total Liabilities and Equity	$42,830	$ 41,479

(a) 1,560,000 shares authorized; 699,128 and 693,398 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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, 2017	693,398	$ 7	$ 10,305	$ 3,871	$ (3,422)	$ 10,761
Common stock issued	5,730		163			163
Stock-based compensation			(6)			(6)
Net income				967		967
Dividends and dividend equivalents				(572)		(572)
Other comprehensive income (loss)					(73)	(73)
June 30, 2018	699,128	$ 7	$ 10,462	$ 4,266	$ (3,495)	$ 11,240
December 31, 2016	679,731	$ 7	$ 9,841	$ 3,829	$ (3,778)	$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20)			(20)
Net income				695		695
Dividends and dividend equivalents				(541)		(541)
Other comprehensive income (loss)					255	255
June 30, 2017	685,473	$ 7	$ 10,023	$ 3,983	$ (3,523)	$ 10,490

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	$517	$500	$1,156	$1,073
Operating Expenses				
Operation				
Energy purchases	115	107	276	253
Other operation and maintenance	159	139	292	302
Depreciation	88	76	173	151
Taxes, other than income	22	23	54	52
Total Operating Expenses	384	345	795	758
Operating Income	133	155	361	315
Other Income (Expense) - net	7	4	13	4
Interest Income from Affiliate	1	1	1	1
Interest Expense	39	36	76	69
Income Before Income Taxes	102	124	299	251
Income Taxes	27	47	76	95
Net Income (a)	$75	$77	$223	$156

(a) Net income equals comprehensive income.

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$223	$156
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	173	151
Amortization	11	15
Defined benefit plans - expense	—	7
Deferred income taxes and investment tax credits	53	84
Other	(9)	(4)
Change in current assets and current liabilities		
Accounts receivable	37	13
Accounts payable	(60)	(59)
Unbilled revenues	30	17
Prepayments	(47)	(52)
Regulatory assets and liabilities, net	(27)	(12)
Taxes payable	(1)	(4)
Other	1	(6)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(41)	(4)
Other liabilities	49	1
Net cash provided by operating activities	364	279
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(518)	(550)
Net decrease in notes receivable from affiliate	—	(270)
Other investing activities	(3)	(4)
Net cash used in investing activities	(521)	(824)
Cash Flows from Financing Activities		
Issuance of long-term debt	398	470
Contributions from parent	425	575
Payment of common stock dividends to parent	(222)	(154)
Net decrease in short-term debt	—	(295)
Other financing activities	(4)	(5)
Net cash provided by financing activities	597	591
Net Increase in Cash, Cash Equivalents and Restricted Cash	440	46
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	51	15
Cash, Cash Equivalents and Restricted Cash at End of Period	$491	$61

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$180	$157

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

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

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$489	$ 49
Accounts receivable (less reserve: 2018, $27; 2017, $24)		
Customer	289	279
Other	23	71
Accounts receivable from affiliates	11	—
Unbilled revenues	97	127
Materials and supplies	28	34
Prepayments	53	6
Regulatory assets	16	16
Other current assets	13	6
Total Current Assets	1,019	588
Property, Plant and Equipment		
Regulated utility plant	11,140	10,785
Less: accumulated depreciation - regulated utility plant	2,815	2,778
Regulated utility plant, net	8,325	8,007
Construction work in progress	586	508
Property, Plant and Equipment, net	8,911	8,515
Other Noncurrent Assets		
Regulatory assets	737	709
Intangibles	260	259
Other noncurrent assets	56	11
Total Other Noncurrent Assets	1,053	979
Total Assets	$10,983	$ 10,082

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

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

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Accounts payable	$374	$ 386
Accounts payable to affiliates	29	31
Taxes	7	8
Interest	37	36
Regulatory liabilities	66	86
Other current liabilities	99	98
Total Current Liabilities	612	645
Long-term Debt	3,693	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,225	1,154
Accrued pension obligations	212	246
Regulatory liabilities	692	668
Other deferred credits and noncurrent liabilities	131	79
Total Deferred Credits and Other Noncurrent Liabilities	2,260	2,147
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,154	2,729
Earnings reinvested	900	899
Total Equity	4,418	3,992
Total Liabilities and Equity	$10,983	$ 10,082

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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, 2017	66,368	$ 364	$ 2,729	$ 899	$ 3,992
Net income				223	223
Capital contributions from PPL			425		425
Dividends declared on common stock				(222)	(222)
June 30, 2018	66,368	$ 364	$ 3,154	$ 900	$ 4,418
December 31, 2016	66,368	$ 364	$ 2,154	$ 873	$ 3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154)	(154)
June 30, 2017	66,368	$ 364	$ 2,729	$ 875	$ 3,968

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	$743	$723	$1,615	$1,532
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	33	29	113	98
Other operation and maintenance	211	192	416	397
Depreciation	118	105	235	210
Taxes, other than income	18	16	35	32
Total Operating Expenses	569	525	1,202	1,111
Operating Income	174	198	413	421
Other Income (Expense) - net	1	(4)	(2)	(8)
Interest Expense	52	50	102	99
Interest Expense with Affiliate	6	4	11	8
Income Before Income Taxes	117	140	298	306
Income Taxes	31	53	70	116
Net Income	$86	$87	$228	$190

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$86	$87	$228	$190
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, $7, $0, $7	1	(11)	—	(11)
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
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, $0, $0	1	1	1	1
Net actuarial (gain) loss, net of tax of $0, ($1), ($1), ($2)	(1)	1	1	2
Total other comprehensive income (loss)	1	(9)	2	(7)
Comprehensive income	$87	$78	$230	$183

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$228	$190
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	235	210
Amortization	9	14
Defined benefit plans - expense	8	12
Deferred income taxes and investment tax credits	30	91
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	16	13
Accounts payable	(10)	(28)
Accounts payable to affiliates	1	—
Unbilled revenues	40	23
Fuel, materials and supplies	26	41
Regulatory assets and liabilities, net	69	(7)
Taxes payable	(25)	3
Other	(40)	(14)
Other operating activities		
Defined benefit plans - funding	(122)	(29)
Expenditures for asset retirement obligations	(26)	(12)
Other assets	(1)	(2)
Other liabilities	3	6
Net cash provided by operating activities	440	511
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(564)	(355)
Net cash used in investing activities	(564)	(355)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(126)	(4)
Issuance of long-term debt with affiliate	250	—
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Distributions to member	(161)	(218)
Net increase in short-term debt	72	73
Other financing activities	(2)	(1)
Net cash provided by (used in) financing activities	133	(150)
Net Increase in Cash and Cash Equivalents	9	6
Cash and Cash Equivalents at Beginning of Period	30	13
Cash and Cash Equivalents at End of Period	$39	$19

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$112	$83

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

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

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$39	$ 30
Accounts receivable (less reserve: 2018, $26; 2017, $25)		
Customer	229	246
Other	45	44
Unbilled revenues	163	203
Fuel, materials and supplies	229	254
Prepayments	31	25
Regulatory assets	11	18
Other current assets	6	8
Total Current Assets	753	828
Property, Plant and Equipment		
Regulated utility plant	13,346	13,187
Less: accumulated depreciation - regulated utility plant	1,955	1,785
Regulated utility plant, net	11,391	11,402
Construction work in progress	880	627
Property, Plant and Equipment, net	12,271	12,029
Other Noncurrent Assets		
Regulatory assets	793	795
Goodwill	996	996
Other intangibles	82	86
Other noncurrent assets	75	68
Total Other Noncurrent Assets	1,946	1,945
Total Assets	$14,970	$ 14,802

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

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

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$316	$ 244
Long-term debt due within one year	203	98
Notes payable with affiliates	99	225
Accounts payable	266	338
Accounts payable to affiliates	8	7
Customer deposits	59	58
Taxes	41	66
Price risk management liabilities	4	4
Regulatory liabilities	71	9
Interest	32	32
Asset retirement obligations	84	85
Other current liabilities	124	161
Total Current Liabilities	1,307	1,327
Long-term Debt		
Long-term debt	4,657	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	5,307	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	878	866
Investment tax credits	127	129
Price risk management liabilities	17	22
Accrued pension obligations	259	365
Asset retirement obligations	248	271
Regulatory liabilities	2,055	2,036
Other deferred credits and noncurrent liabilities	140	162
Total Deferred Credits and Other Noncurrent Liabilities	3,724	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity	4,632	4,563
Total Liabilities and Equity	$14,970	$ 14,802

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, 2017	$ 4,563
Net income	228
Distributions to member	(161)
Other comprehensive income	2
June 30, 2018	$ 4,632
December 31, 2016	$ 4,667
Net income	190
Distributions to member	(218)
Other comprehensive income	(7)
June 30, 2017	$ 4,632

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	$331	$320	$738	$694
Electric revenue from affiliate	4	4	16	21
Total Operating Revenues	335	324	754	715
Operating Expenses				
Operation				
Fuel	72	69	151	149
Energy purchases	28	25	104	89
Energy purchases from affiliate	2	3	8	5
Other operation and maintenance	93	86	182	171
Depreciation	49	45	97	89
Taxes, other than income	9	9	18	17
Total Operating Expenses	253	237	560	520
Operating Income	82	87	194	195
Other Income (Expense) - net	(1)	1	(2)	(3)
Interest Expense	19	19	37	36
Income Before Income Taxes	62	69	155	156
Income Taxes	12	27	33	60
Net Income (a)	$50	$42	$122	$96

(a) Net income equals comprehensive income.

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$122	$96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	97	89
Amortization	7	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	18	57
Change in current assets and current liabilities		
Accounts receivable	11	9
Accounts receivable from affiliates	6	11
Accounts payable	(12)	(17)
Accounts payable to affiliates	(3)	(3)
Unbilled revenues	24	14
Fuel, materials and supplies	31	33
Regulatory assets and liabilities, net	32	(3)
Taxes payable	(2)	(23)
Other	(7)	—
Other operating activities		
Defined benefit plans - funding	(57)	(3)
Expenditures for asset retirement obligations	(10)	(7)
Other liabilities	(4)	1
Net cash provided by operating activities	255	264
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(296)	(177)
Net cash used in investing activities	(296)	(177)
Cash Flows from Financing Activities		
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Net increase (decrease) in short-term debt	(16)	38
Payment of common stock dividends to parent	(81)	(122)
Contributions from parent	43	—
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	45	(85)
Net Increase in Cash and Cash Equivalents	4	2
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	$19	$7

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

Accrued expenditures for property, plant and equipment at June 30,	$57	$40

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

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

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 19	$ 15
Accounts receivable (less reserve: 2018, $1; 2017, $1)		
Customer	104	116
Other	14	13
Unbilled revenues	67	91
Accounts receivable from affiliates	18	24
Fuel, materials and supplies	100	131
Prepayments	16	11
Regulatory assets	11	12
Other current assets	2	3
Total Current Assets	351	416
Property, Plant and Equipment		
Regulated utility plant	5,653	5,587
Less: accumulated depreciation - regulated utility plant	678	614
Regulated utility plant, net	4,975	4,973
Construction work in progress	455	305
Property, Plant and Equipment, net	5,430	5,278
Other Noncurrent Assets		
Regulatory assets	406	411
Goodwill	389	389
Other intangibles	50	53
Other noncurrent assets	23	12
Total Other Noncurrent Assets	868	865
Total Assets	$ 6,649	$ 6,559

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

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

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 183	$ 199
Long-term debt due within one year	194	98
Accounts payable	132	179
Accounts payable to affiliates	21	23
Customer deposits	28	27
Taxes	23	25
Price risk management liabilities	4	4
Regulatory liabilities	34	3
Interest	11	11
Asset retirement obligations	17	24
Other current liabilities	47	52
Total Current Liabilities	694	645
Long-term Debt	1,614	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	581	572
Investment tax credits	34	35
Price risk management liabilities	17	22
Accrued pension obligations	—	45
Asset retirement obligations	95	97
Regulatory liabilities	922	919
Other deferred credits and noncurrent liabilities	81	86
Total Deferred Credits and Other Noncurrent Liabilities	1,730	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,755	1,712
Earnings reinvested	432	391
Total Equity	2,611	2,527
Total Liabilities and Equity	$ 6,649	$ 6,559

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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, 2017	21,294	$ 424	$ 1,712	$ 391	$2,527
Net income				122	122
Capital contributions from LKE			43		43
Cash dividends declared on common stock				(81)	(81)
June 30, 2018	21,294	$ 424	$ 1,755	$ 432	$2,611
December 31, 2016	21,294	$ 424	$ 1,682	$ 370	$2,476
Net income				96	96
Cash dividends declared on common stock				(122)	(122)
June 30, 2017	21,294	$ 424	$ 1,682	$ 344	$2,450

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	$412	$403	$877	$838
Electric revenue from affiliate	2	3	8	5
Total Operating Revenues	414	406	885	843
Operating Expenses				
Operation				
Fuel	117	114	252	225
Energy purchases	5	4	9	9
Energy purchases from affiliate	4	4	16	21
Other operation and maintenance	112	100	217	208
Depreciation	70	61	138	121
Taxes, other than income	9	7	17	15
Total Operating Expenses	317	290	649	599
Operating Income	97	116	236	244
Other Income (Expense) - net	3	(2)	—	(4)
Interest Expense	25	24	50	48
Income Before Income Taxes	75	90	186	192
Income Taxes	14	34	38	73
Net Income (a)	$61	$56	$148	$119

(a) Net income approximates comprehensive income.

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$148	$119
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	138	121
Amortization	2	6
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	9	70
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	4	5
Accounts payable	11	(1)
Accounts payable to affiliates	(12)	(15)
Unbilled revenues	16	9
Fuel, materials and supplies	(5)	8
Regulatory assets and liabilities, net	37	(4)
Taxes payable	4	(29)
Other	(11)	(9)
Other operating activities		
Defined benefit plans - funding	(52)	(21)
Expenditures for asset retirement obligations	(16)	(5)
Other assets	(1)	(3)
Other liabilities	3	4
Net cash provided by operating activities	274	257
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(266)	(177)
Net cash used in investing activities	(266)	(177)
Cash Flows from Financing Activities		
Net increase in short-term debt	88	35
Payment of common stock dividends to parent	(136)	(110)
Contributions from parent	45	—
Net cash used in financing activities	(3)	(75)
Net Increase in Cash and Cash Equivalents	5	5
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	$20	$12

Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	$55	$43

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

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

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 20	$ 15
Accounts receivable (less reserve: 2018, $1; 2017, $1)		
Customer	125	130
Other	31	30
Unbilled revenues	96	112
Fuel, materials and supplies	129	123
Prepayments	15	14
Regulatory assets	—	6
Other current assets	4	5
Total Current Assets	420	435
Property, Plant and Equipment		
Regulated utility plant	7,683	7,592
Less: accumulated depreciation - regulated utility plant	1,275	1,170
Regulated utility plant, net	6,408	6,422
Construction work in progress	424	321
Property, Plant and Equipment, net	6,832	6,743
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	32	33
Other noncurrent assets	75	52
Total Other Noncurrent Assets	1,101	1,076
Total Assets	$ 8,353	$ 8,254

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

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

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 133	$ 45
Long-term debt due within one year	9	—
Accounts payable	121	137
Accounts payable to affiliates	42	53
Customer deposits	31	31
Taxes	23	19
Regulatory liabilities	37	6
Interest	16	16
Asset retirement obligations	67	61
Other current liabilities	35	46
Total Current Liabilities	514	414
Long-term Debt	2,320	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	690	691
Investment tax credits	93	94
Accrued pension obligations	—	36
Asset retirement obligations	153	174
Regulatory liabilities	1,133	1,117
Other deferred credits and noncurrent liabilities	36	43
Total Deferred Credits and Other Noncurrent Liabilities	2,105	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	445	433
Total Equity	3,414	3,357
Total Liabilities and Equity	$ 8,353	$ 8,254

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2018 and December 31, 2017.

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, 2017	37,818	$ 308	$ 2,616	$ 433	$ —	$3,357
Capital contributions from LKE			45			45
Net income				148		148
Cash dividends declared on common stock				(136)		(136)
June 30, 2018	37,818	$ 308	$ 2,661	$ 445	$ —	$3,414
December 31, 2016	37,818	$ 308	$ 2,616	$ 400	$ (1)	$3,323
Net income				119		119
Cash dividends declared on common stock				(110)		(110)
Other comprehensive income (loss)					1	1
June 30, 2017	37,818	$ 308	$ 2,616	$ 409	$ —	$3,333

(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, 2017 is derived from that Registrant's 2017 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 2017 Form 10-K. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted (All Registrants)

Accounting for Revenue from Contracts with Customers

Effective January 1, 2018, the Registrants adopted accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Registrants adopted this guidance using the modified retrospective transition method. No cumulative effect adjustment was required as of the January 1, 2018 adoption date.

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 4 for the required disclosures as a result of the adoption of this standard.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Registrants adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. Prospectively, the guidance limits the capitalization to the service cost component of net periodic benefit costs.

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For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the three and six months ended June 30, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were $6 million ($5 million after-tax or $0.01 per share) and $11 million ($9 million after-tax or $0.01 per share) for the three and six months ended June 30, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 on the Statements of Income as a result of the adoption.

	Three Months		Six Months	
	2018	2017	2018	2017
PPL	$66	$ 44	$134	$82
PPL Electric	1	1	3	—
LKE	—	—	2	(2)
LG&E	(2)	—	(1)	(2)
KU	1	—	2	(1)

PPL and PPL Electric elected to use the practical expedient that permits using the amounts disclosed in the defined benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements.

Presentation of Restricted Cash in the Statement of Cash Flows (PPL and PPL Electric)

Effective January 1, 2018, PPL and PPL Electric adopted accounting guidance that changes the cash flow statement presentation of restricted cash. Under the new guidance, amounts considered restricted cash are presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts on the Statements of Cash Flows. The guidance requires a reconciliation of the total cash, cash equivalents and restricted cash from the Statement of Cash Flows to amounts on the Balance Sheets and disclosure of the nature of the restrictions. PPL and PPL Electric have applied this guidance on a retrospective basis for all periods presented. The adoption of this guidance did not have a material impact on the Statements of Cash Flows.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets that sum to the total of the same amounts shown on the Statements of Cash Flows:

	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Cash and cash equivalents	$852	$ 485	$489	$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	20	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	$875	$ 511	$491	$ 51

(a)

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

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3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2017 Form 10-K for a discussion of reportable segments and related information.

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

	Three Months		Six Months	
	2018	2017	2018	2017
Operating Revenues from external customers				
U.K. Regulated	$584	$502	$1,199	$1,070
Kentucky Regulated	743	723	1,615	1,532
Pennsylvania Regulated	517	500	1,156	1,073
Corporate and Other	4	—	4	1
Total	$1,848	$1,725	$3,974	$3,676
Net Income				
U.K. Regulated (a)	$394	$148	$591	$434
Kentucky Regulated	77	79	210	174
Pennsylvania Regulated	75	77	223	156
Corporate and Other	(31)	(12)	(57)	(69)
Total	$515	$292	$967	$695

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 14 for additional information.

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

	June 30, 2018	December 31, 2017
Assets		
U.K. Regulated (a)	$16,839	$ 16,813
Kentucky Regulated	14,636	14,468
Pennsylvania Regulated	10,995	10,082
Corporate and Other (b)	360	116
Total	$42,830	$ 41,479

(a) Includes $12.6 billion and $12.5 billion of net PP&E as of June 30, 2018 and December 31, 2017. 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, goodwill 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. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

U.K. Regulated Segment Revenue (PPL)

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

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DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD’s distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are “at will” customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD’s DUoS contracts.

Pennsylvania Regulated Segment Revenue (PPL and PPL Electric)

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric’s tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are typically due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric’s retail account contracts.

Transmission Revenue

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

Kentucky Regulated Segment Revenue (PPL, LKE, LG&E and KU)

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers primarily from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled

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revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following tables reconcile "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the periods ended June 30, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	$1,848	$ 517	$743	$335	$414
Revenues derived from:					
Alternative revenue programs (b)	9	—	9	6	3
Other (c)	(13)	(2)	(4)	(2)	(2)
Revenues from Contracts with Customers	$1,844	$ 515	$748	$339	$415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	$3,974	$1,156	$1,615	$754	$885
Revenues derived from:					
Alternative revenue programs (b)	41	2	39	20	19
Other (c)	(28)	(6)	(9)	(3)	(6)
Revenues from Contracts with Customers	$3,987	$1,152	$1,645	$771	$898

(a) PPL includes $584 million and $1,199 million for the three and six months ended June 30, 2018 of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 3 for additional information.

(b) Alternative revenue programs for PPL Electric include the over/under-collection of its transmission formula rate. Alternative revenue programs for LKE, LG&E and KU include the over/under collection for the ECR and DSM programs as well as LG&E's over/under collection of its GLT program and KU's over/under collection of its generation formula rate. Over-collections of revenue are shown as positive amounts in the table above; under-collections are shown as negative amounts.

(c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

As discussed in Note 2 in PPL's 2017 Form 10-K, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were $414 million and $101 million for the three months ended June 30, 2018 and $946 million and $206 million for the six months ended June 30, 2018.

The following tables show revenues from contracts with customers disaggregated by customer class for the periods ended June 30, 2018.

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	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	$547	$ —	$—	$ —	$—
Residential	588	300	288	146	142
Commercial	296	89	207	107	100
Industrial	155	12	143	45	98
Other (b)	114	13	67	30	37
Wholesale - municipal	31	—	31	—	31
Wholesale - other (c)	12	—	12	11	7
Transmission	101	101	—	—	—
Revenues from Contracts with Customers	$1,844	$ 515	$748	$ 339	$415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	$1,131	$ —	$—	$ —	$—
Residential	1,392	708	684	343	341
Commercial	621	187	434	231	203
Industrial	310	25	285	89	196
Other (b)	220	26	135	61	74
Wholesale - municipal	61	—	61	—	61
Wholesale - other (c)	46	—	46	47	23
Transmission	206	206	—	—	—
Revenues from Contracts with Customers	$3,987	$ 1,152	$1,645	$ 771	$898

(a) Represents customers of WPD.
(b) Primarily includes revenues from pole attachments, street lighting and other public authorities.
(c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable balances that were impaired for the periods ended June 30, 2018.

	Three Months	Six Months
PPL	$ 3	$ 13
PPL Electric	3	10
LKE	1	3
LG&E	—	1
KU	1	2

The following table shows the balances of contract liabilities resulting from contracts with customers.

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	$29	$ 19	$ 8	$ 4	$ 4
Contract liabilities as of June 30, 2018	38	14	8	4	3

The following table shows the revenue recognized during the period ended June 30, 2018 that was included in the contract liability balance at December 31, 2017.

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	Six Months
PPL	$ 18
PPL Electric	8
LKE	8
LG&E	4
KU	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as services are delivered in subsequent periods.

At June 30, 2018, PPL had $70 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately $50 million within the next 12 months.

5. 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. In 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds the forward sale price prescribed in the agreements.

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

	Three Months		Six Months	
	2018	2017	2018	2017
Income (Numerator)				
Net income	$515	$ 292	$967	$ 695
Less amounts allocated to participating securities	—	—	1	1
Net income available to PPL common shareowners - Basic and Diluted	$515	$ 292	$966	$ 694
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	699,006	683,841	696,772	682,370
Add incremental non-participating securities:				
Share-based payment awards	173	2,510	491	2,355
Forward sale agreements	1,797	—	898	—
Weighted-average shares - Diluted EPS	700,976	686,351	698,161	684,725
Basic EPS				
Net Income available to PPL common shareowners	$0.74	$ 0.43	$1.39	$ 1.02

Diluted EPS				
Net Income available to PPL common shareowners	$0.73	$ 0.43	$1.38	$ 1.01

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

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	Three Months		Six Months	
	2018	2017	2018	2017
Stock-based compensation plans (a)	12	564	488	1,451
DRIP	526	369	1,011	814

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

See Note 8 for additional information on common stock issued under the ATM Program.

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

	Three Months		Six Months	
	2018	2017	2018	2017
Stock options	441	696	336	696
Restricted stock units	23	—	21	—

6. Income Taxes

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

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$138	$129	$257	$315
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	10	25	23
Valuation allowance adjustments	5	—	12	5
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(6)	(40)	(13)	(88)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	—	(7)	1	(16)
Federal and state tax reserve adjustments	3	—	3	—
Impact of the U.K. Finance Acts	(2)	(6)	(3)	(9)
Depreciation and other items not normalized	(2)	(2)	(4)	(5)
Amortization of excess deferred income taxes (a)	(9)	—	(19)	—
Deferred tax impact of state tax reform (c)	9	—	9	—
Interest benefit on U.K. financing entities	(4)	(4)	(9)	(8)
Stock-based compensation	—	(4)	1	(7)
Other	—	—	(1)	(5)
Total increase (decrease)	4	(53)	2	(110)
Total income taxes	$142	$76	$259	$205

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

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

(c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(PPL Electric)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$22	$44	$63	$88
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	9	24	17
Depreciation and other items not normalized	(1)	(2)	(3)	(4)
Amortization of excess deferred income taxes (a)	(3)	—	(8)	—
Stock-based compensation	—	(3)	—	(5)
Other	1	(1)	—	(1)
Total increase (decrease)	5	3	13	7
Total income taxes	$27	$47	$76	$95

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(LKE)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$25	$49	$63	$107
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	3	5	11	11
Deferred tax impact of state tax reform (c)	9	—	9	—
Amortization of excess deferred income taxes (a)	(6)	—	(11)	—
Other	—	(1)	(2)	(2)
Total increase (decrease)	6	4	7	9
Total income taxes	$31	$53	$70	$116

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(c) During the second quarter of 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(LG&E)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$13	$ 24	$33	$55
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	6	6
Amortization of excess deferred income taxes (a)	(3)	—	(5)	—
Other	—	—	(1)	(1)
Total increase (decrease)	(1)	3	—	5
Total income taxes	$12	$ 27	$33	$60

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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(KU)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	$16	$32	$39	$67
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	7	7
Amortization of excess deferred income taxes (a)	(3)	—	(6)	—
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	(2)	2	(1)	6
Total income taxes	$14	$34	$38	$73

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

Kentucky State Tax Reform (All Registrants)

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. LKE recognized a deferred tax charge of $9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, LG&E’s and KU’s accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of $16 million and $19 million. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

U.S. Tax Reform (All Registrants)

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

7. Utility Rate Regulation

(All Registrants)

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

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	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	$—	$ 5	$—	$ —
Generation formula rate	—	6	—	—
Smart meter rider	15	15	15	15
Plant outage costs	6	3	—	—
Gas supply clause	5	4	—	—
Other	1	1	1	1
Total current regulatory assets (a)	$27	$ 34	$16	$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	$857	$ 880	$491	$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs (b)	47	33	21	—
Unamortized loss on debt	49	54	25	29
Interest rate swaps	21	26	—	—
Terminated interest rate swaps	89	92	—	—
Accumulated cost of removal of utility plant	182	173	182	173
AROs	260	234	—	—
Act 129 compliance rider	15	—	15	—
Other	7	9	—	—
Total noncurrent regulatory assets	$1,530	$ 1,504	$737	$ 709

	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Liabilities:				
Generation supply charge	$30	$ 34	$30	$ 34
Transmission service charge	4	9	4	9
Environmental cost recovery	25	1	—	—
Universal service rider	20	26	20	26
Transmission formula rate	11	9	11	9
Fuel adjustment clause	5	3	—	—
TCJA customer refund (c)	33	—	—	—
Storm damage expense rider	1	8	1	8
Other	8	5	—	—
Total current regulatory liabilities	$137	$ 95	$66	$ 86
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$678	$ 677	$—	$ —
Power purchase agreement - OVEC (d)	64	68	—	—
Net deferred taxes (e)	1,858	1,853	652	668
Defined benefit plans	31	27	—	—
Terminated interest rate swaps	72	74	—	—
TCJA customer refund (f)	37	—	37	—
Other	7	5	3	—
Total noncurrent regulatory liabilities	$2,747	$ 2,704	$692	$ 668

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	LKE		LG&E		KU	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:						
Environmental cost recovery	$—	$ 5	$—	$ 5	$—	$ —
Generation formula rate	—	6	—	—	—	6
Plant outage costs	6	3	6	3	—	—
Gas supply clause	5	4	5	4	—	—
Total current regulatory assets	$11	$ 18	$11	$ 12	$—	$ 6
Noncurrent Regulatory Assets:						
Defined benefit plans	$366	$ 376	$231	$ 234	$135	$ 142
Storm costs	26	33	14	18	12	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	21	26	21	26	—	—
Terminated interest rate swaps	89	92	52	54	37	38
AROs	260	234	71	61	189	173
Other	7	9	2	2	5	7
Total noncurrent regulatory assets	$793	$ 795	$406	$ 411	$387	$ 384

	LKE		LG&E		KU	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Liabilities:						
Environmental cost recovery	$25	$ 1	$14	$ —	$11	$ 1
Fuel adjustment clause	5	3	1	—	4	3
Gas line tracker	2	3	2	3	—	—
TCJA customer refund (c)	33	—	15	—	18	—
Other	6	2	2	—	4	2
Total current regulatory liabilities	$71	$ 9	$34	$ 3	$37	$ 6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$678	$ 677	$280	$ 282	$398	395
Power purchase agreement - OVEC (d)	64	68	44	47	20	21
Net deferred taxes (e)	1,206	1,185	561	552	645	633
Defined benefit plans	31	27	—	—	31	27
Terminated interest rate swaps	72	74	36	37	36	37
Other	4	5	1	1	3	4
Total noncurrent regulatory liabilities	$2,055	$ 2,036	$922	$ 919	$1,133	$ 1,117

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

(b) Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.

(c) Relates to estimated amounts owed to LG&E and KU customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018. Amounts owed will be distributed through the TCJA bill credit.

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

(e) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which reduced the U.S. federal corporate income tax rate effective January 1, 2018, requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017. LG&E and KU began distributing amounts through the TCJA bill credit effective April 1, 2018.

(f) Relates to amounts owed to PPL Electric customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, for the period of January 1, 2018 through June 30, 2018 which is not yet reflected in customer rates. The distribution method back to customers of this liability must be proposed to the PUC at the earlier of May 2021 or PPL Electric’s next rate case.

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Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

CPCN Filing

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to implement Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The full deployment is expected to be completed in 2021 with estimated capital costs of $155 million and $104 million for KU and LG&E electric service and $62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of $17 million and $11 million for KU and LG&E electric service and $3 million for LG&E gas service. A hearing on this matter was held July 24, 2018. LG&E and KU cannot predict the outcome of this proceeding.

TCJA Impact on LG&E and KU Rates

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019. The estimated impact of the rate reduction represents approximately $91 million in KU electricity revenues ($70 million through the new bill credit and $21 million through existing rate mechanisms), $69 million in LG&E electricity revenues ($49 million through the new bill credit and $20 million through existing rate mechanisms) and $17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 2019.

On March 20, 2018, the KPSC issued an order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately $108 million for KU ($87 million through the new bill credit and $21 million through existing rate mechanisms) and $79 million for LG&E ($59 million through the new bill credit and $20 million through existing rate mechanisms). This represents $27 million ($17 million at KU and $10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement. On March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

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LG&E and KU cannot predict the outcome of these proceedings.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

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 Louisville/Jefferson county customers in the franchise areas as a separate line item on their bill, the franchise fee will revert to zero. In August 2016, LG&E filed an application requesting the KPSC to review and rule upon the recoverability of the franchise fee.

On March 14, 2018, the KPSC issued an order authorizing the franchise fee to be recovered only from LG&E's Louisville/Jefferson County customers in the franchise area. As a result, the franchise fee will continue to be zero in accordance with the terms of the August 2016, 5-year gas franchise agreement.

(PPL and PPL Electric)

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018

Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is $72 million in PPL Electric's operating revenues of which $37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining $35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

Federal Matters

(PPL, LKE, LG&E and KU)

FERC Transmission Rate Filing

On August 3, 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E’s and KU’s parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (“MISO”), a regional transmission operator and energy market. The application seeks termination of LG&E’s and KU’s commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately $22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E and KU’s respective transmission system ownership ratio. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

Other

Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and six months ended June 30, 2018, PPL Electric purchased $297 million and $673 million of accounts receivable from alternate suppliers. During the three and six months ended June 30, 2017, PPL Electric purchased $288 million and $644 million of accounts receivable from alternate suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and act as 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 except for borrowings under LG&E's term loan agreement, which are reflected in "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

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	June 30, 2018					December 31, 2017	
	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. 2023	£ 210	£ 150	£ —	£ 60	£148	£ —
Term Loan Facility (b)	Dec. 2018	130	130	—	—	—	—
WPD (South West)							
Syndicated Credit Facility	July 2021	245	—	—	245	—	—
WPD (East Midlands)							
Syndicated Credit Facility (c)	July 2021	300	99	—	201	180	—
WPD (West Midlands)							
Syndicated Credit Facility (d)	July 2021	300	34	—	266	120	—
Uncommitted Credit Facilities		130	—	4	126	—	4
Total U.K. Credit Facilities (e)		£ 1,315	£ 413	£ 4	£ 898	£448	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility	Jan. 2023	$ 950	$ —	$ 950	$ —	$—	$ 230
Syndicated Credit Facility	Nov. 2018	300	—	49	251	—	—
Bilateral Credit Facility	Mar. 2019	100	—	20	80	—	18
Total PPL Capital Funding Credit Facilities		$ 1,350	$ —	$ 1,019	$ 331	$—	$ 248
PPL Electric							
Syndicated Credit Facility	Jan. 2023	$ 650	$ —	$ 1	$ 649	$—	$ 1
LKE							
Syndicated Credit Facility	Oct. 2018	$ 75	$ —	$ —	$ 75	$—	$ —
LG&E							
Syndicated Credit Facility	Jan. 2023	$ 500	$ —	$ 183	$ 317	$—	$ 199
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—
Total LG&E Credit Facilities		$ 700	$ 200	$ 183	$ 317	$100	$ 199
KU							
Syndicated Credit Facility	Jan. 2023	$ 400	$ —	$ 133	$ 267	$—	$ 45
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 331	$ 267	$—	$ 243

(a) The amounts borrowed at June 30, 2018 and December 31, 2017 were USD-denominated borrowings of $200 million for both periods, which bore interest at 2.81% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed.

(b)

The amount borrowed at June 30, 2018 was a GBP-denominated borrowing which equated to $173 million and bore interest at 1.75%.

(c) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to $132 million and $244 million and bore interest at 0.90% and 0.89%.

(d) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to $45 million and $162 million and bore interest at 0.90% and 0.89%.

(e) At June 30, 2018, the unused capacity under the U.K. credit facilities was $1.2 billion.

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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:

	June 30, 2018				December 31, 2017	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.42%	$ 1,000	$ 999	$ 1	1.64%	$ 230
PPL Electric		650	—	650		—
LG&E	2.33%	350	183	167	1.83%	199
KU	2.34%	350	133	217	1.97%	45
Total		$ 2,350	$ 1,315	$ 1,035		$ 474

(PPL Electric, LKE, and LG&E)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2018, WPD (South Wales) issued £30 million of 0.01% Index-linked Senior Notes due 2036. WPD (South Wales) received proceeds of £31 million, which equated to $44 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 May 2018, WPD (West Midlands) issued £30 million of 0.01% Index-linked Senior Notes due 2028. WPD (West Midlands) received proceeds of £31 million, which equated to $41 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 June 2018, PPL Capital Funding repaid the entire $250 million principal amount of its 1.90% Senior Notes upon maturity.

(PPL and PPL Electric)

In June 2018, PPL Electric issued $400 million of 4.15% First Mortgage Bonds due 2048. PPL Electric received proceeds of $394 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

(PPL, LKE and LG&E)

In March 2018, the County of Trimble, Kentucky remarketed $28 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.30% through their mandatory purchase date of September 1, 2021.

In May 2018, the County of Trimble, Kentucky remarketed $35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

In May 2018, the County of Jefferson, Kentucky remarketed $35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

(PPL, LKE and KU)

In July 2018, KU redeemed, at par, its $9 million County of Trimble, Kentucky, Environmental Facilities Revenue Bonds, 2007 Series A (Kentucky Utilities Company Project) due 2037.

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(LKE)

In May 2018, LKE borrowed $250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. See Note 11 for additional information related to intercompany borrowings.

(PPL)

Equity Securities

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 63.25 million shares of PPL common stock. Settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the applicable forward counterparty shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of $26.7057 per share reduced during the period the applicable forward contract is outstanding as specified in such forward sale agreement. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under each forward sale agreement. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. PPL issued 1.2 million and 4.2 million shares of common stock and received gross proceeds of $34 million and $119 million for the three and six months ended June 30, 2018.

Distributions

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 2018, of 41.0 cents per share (equivalent to $1.64 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.

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9. 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 its subsidiaries, and LG&E for the periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2018	2017	2018	2017	2018	2017	2018	2017
PPL								
Service cost	$15	$15	$21	$18	$31	$32	$42	$37
Interest cost	39	42	47	44	78	84	94	87
Expected return on plan assets	(62)	(58)	(150)	(127)	(124)	(115)	(300)	(252)
Amortization of:								
Prior service cost	3	3	—	—	5	5	—	—
Actuarial loss	19	14	38	36	41	34	77	71
Net periodic defined benefit costs (credits) before special termination benefits	14	16	(44)	(29)	31	40	(87)	(57)
Special termination benefits (a)	—	(1)	—	—	—	1	—	—
Net periodic defined benefit costs (credits)	$14	$15	$(44)	$(29)	$31	$41	$(87)	$(57)

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

	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LKE				
Service cost	$5	$ 5	$12	$12
Interest cost	16	18	32	34
Expected return on plan assets	(25)	(24)	(51)	(46)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial loss (a)	8	4	18	15
Net periodic defined benefit costs (b)	$6	$ 5	$15	$19

(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 $2 million and $6 million for the three and six months ended June 30, 2018 and $5 million for the six months ended June 30, 2017. This difference is recorded as a regulatory asset.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $4 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.

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	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LG&E				
Service cost	$1	$ 1	$1	$ 1
Interest cost	3	3	6	6
Expected return on plan assets	(6)	(6)	(11)	(11)
Amortization of:				
Prior service cost	2	1	3	2
Actuarial loss (a)	1	1	3	4
Net periodic defined benefit costs (b)	$1	$ —	$2	$ 2

(a) As a result of treatment approved by the KPSC, 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 for the six months ended June 30, 2018 and 2017. This difference is recorded as a regulatory asset.

(b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of $4 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		Six Months	
	2018	2017	2018	2017
PPL				
Service cost	$3	$ 2	$4	$ 4
Interest cost	7	6	10	12
Expected return on plan assets	(9)	(5)	(13)	(11)
Amortization of prior service cost	1	(1)	—	(1)
Net periodic defined benefit costs	$2	$ 2	$1	$ 4
LKE				
Service cost	$1	$ 1	$2	$ 2
Interest cost	2	2	4	4
Expected return on plan assets	(2)	(2)	(4)	(3)
Amortization of:				
Prior service cost	1	—	1	—
Actuarial gain	(1)	—	(1)	—
Net periodic defined benefit costs	$1	$ 1	$2	$ 3

(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 11 for additional 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 June 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Six Months	
	2018	2017	2018	2017
PPL Electric	$ 3	$ 5	$ 7	$ 13
LG&E	2	2	4	5
KU	1	1	2	5

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(All Registrants)

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

10. 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.

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, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant, which had three coal-fired units retired in 2015. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the 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. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E alleging 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. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

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 sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. On December 28, 2017 the U.S. District Court for the Eastern District of Kentucky issued an order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. The case has been briefed and oral argument was presented on August 2, 2018. KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan, and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

Regulatory Issues (All Registrants)

See Note 7 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 an estimate or range of possible losses cannot be determined.

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 generation 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. 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 nonattainment. 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 designations 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. Although 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. Although 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 nonattainment. In July 2013, the EPA finalized nonattainment designations for parts of the country, including part of Jefferson County in Kentucky. 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 rules issued in 2015 imposing GHG emission standards for both new and existing power plants, 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, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules 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

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015, the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

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 2015 EPA Rules, 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 are consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

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. The parties have entered into a tolling agreement with respect to this matter through December 2018. 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.

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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. On March 1, 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. On July 18, 2018, the EPA released a pre-publication copy of a signed final rule extending the deadline for closure of certain impoundments to October 2020 and adopting substantive changes relating to certifications, suspensions of groundwater monitoring and groundwater protection standards for certain constituents. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing rulemaking or potential impacts on current LG&E and KU compliance plans. Revisions to the current rule could potentially result in additional costs.

In January 2017, Kentucky issued a new state rule relating to CCR matters, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain procedural elements of the new rule but finding the substantive requirements of the new rule to be consistent with those of the federal CCR rule. This ruling was not appealed by any party to the litigation and is now final. Accordingly, LG&E and KU presently operate their facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the judicial ruling. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR rule. The Kentucky Energy and Environmental Cabinet has indicated it may propose rules under such authority in the future.

LG&E and KU received KPSC approval for a compliance plan providing for the 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 the federal CCR rule, 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. On January 26, 2018, KU filed an application requesting a CPCN and approval of amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station. On July 9, 2018, the KPSC granted approval to KU for amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 16 below and Note 19 in the Registrants' 2017 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.

On February 20, 2018, the EPA issued a notice requesting comment on the scope of discharges subject to regulation under the Clean Water Act. Specifically, the EPA seeks comments on whether Clean Water Act jurisdiction should cover discharges to groundwater that reach surface water via a direct hydrologic connection. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the future regulatory developments or potential impacts on current LG&E and KU compliance plans.

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

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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. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

(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 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. Currently, the EPA is planning a review of part two later in 2018.

Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating, responding to agency inquiries, implementing various preventative measures, and/or remediating contamination under programs other than those described in the sections above. 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 about such additional sites to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

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.

As of June 30, 2018 and December 31, 2017, PPL Electric had a recorded liability of $11 million and $10 million representing its best estimate of the probable loss incurred to remediate the sites noted in the paragraph 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.

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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 to comply 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 available to cover 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

(LKE and KU)

KU has 68 employees that are represented by the IBEW labor union. Contract negotiations with the IBEW commenced in July 2018. The current three-year agreement, scheduled to expire on August 1, 2018, was extended to August 9, 2018. Although union members voted to reject a recent agreement reached by KU and the IBEW, negotiations are continuing. KU cannot predict the outcome of these negotiations but does not expect the ultimate outcome of this matter, including terms of any potential new agreement, or lack thereof, to have a material impact on 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.

(All Registrants)

The table below details guarantees provided as of June 30, 2018. "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." The total recorded liability at June 30, 2018 was $6 million for PPL and not significant for LKE. The total recorded liability at December 31, 2017 was $17 million for PPL and $11 million for LKE. 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.

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	Exposure at June 30, 2018		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 10	(b)	2020
WPD guarantee of pension and other obligations of unconsolidated entities	82	(c)	
PPL Electric			
Guarantee of inventory value	20	(d)	2020
LKE			
Indemnification of lease termination and other divestitures	200	(e)	2021
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 June 30, 2018, 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. 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.

(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 $115 million at June 30, 2018, consisting of LG&E's share of $80 million and KU's share of $35 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 2017 Form 10-K for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a pro-rata share of certain OVEC obligations of 4.85% filed for bankruptcy under Chapter 11 and is seeking to reject the OVEC power purchase contract, which action OVEC and certain sponsors are contesting. OVEC and certain of its sponsors, 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, establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt. The ultimate outcome of these matters, including the sponsor bankruptcy and related proceedings and any other 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.

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

11. Related Party Transactions

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 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. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. 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 June 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		Six Months	
	2018	2017	2018	2017
PPL Electric from PPL Services	$ 15	$ 44	$ 31	$ 95
LKE from PPL Services	7	5	14	11
PPL Electric from PPL EU Services	41	15	76	33
LG&E from LKS	39	38	77	82
KU from LKS	43	47	85	91

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 overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a revolving line of credit with a PPL Electric subsidiary. In June 2018, the revolving line of credit was increased by $250 million and the limit as of June 30, 2018 was $650 million. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

(LKE)

LKE maintains a $300 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 June 30, 2018 and December 31, 2017, $99 million and $225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at June 30, 2018 and December 31, 2017 were 3.50% and 2.87%.

LKE maintains an agreement with a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market based rates. No balance was outstanding at June 30, 2018 and December 31, 2017. The interest rate on the loan is based on the PPL affiliates credit rating and equal to one-month LIBOR plus a spread.

LKE maintains a $400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At June 30, 2018 and December 31, 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was $3 million and $7 million for the three and six months ending June 30, 2018 and 2017.

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In May 2018, LKE borrowed $250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028 with interest due in May and November. At June 30, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. Interest expense on this note was $2 million for the three and six months ending June 30, 2018.

Other (PPL Electric, LG&E and KU)

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
Economic foreign currency exchange contracts (Note 14)	$164	$(113)	$52	$(156)
Defined benefit plans - non-service credits (Note 9)	66	44	134	82
Interest income	2	—	2	1
AFUDC - equity component	5	4	10	6
Miscellaneous	—	—	1	9
Total Other Income	237	(65)	199	(58)
Other Expense				
Charitable contributions	1	1	5	5
Miscellaneous	2	2	3	14
Total Other Expense	3	3	8	19
Other Income (Expense) - net	$234	$(68)	$191	$(77)

(PPL Electric)

The details of "Other Income (Expense) - net" for the periods ended June 30, were:

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
AFUDC - equity component	$5	$4	$10	$6
Defined benefit plans - non-service credits (Note 9)	1	1	3	—
Miscellaneous	1	—	1	—
Total Other Income	7	5	14	6
Other Expense				
Charitable contributions	—	—	1	1
Miscellaneous	—	1	—	1
Total Other Expense	—	1	1	2
Other Income (Expense) - net	$7	$4	$13	$4

13. 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

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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 six months ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2017 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:

	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$852	$852	$—	$ —	$485	$485	$—	$ —
Restricted cash and cash equivalents (a)	23	23	—	—	26	26	—	—
Special use funds (a)	65	65	—	—	—	—	—	—
Price risk management assets (b):								
Foreign currency contracts	163	—	163	—	163	—	163	—
Cross-currency swaps	100	—	100	—	101	—	101	—
Total price risk management assets	263	—	263	—	264	—	264	—
Total assets	$1,203	$940	$263	$ —	$775	$511	$264	$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	$21	$—	$21	$ —	$26	$—	$26	$ —
Foreign currency contracts	53	—	53	—	148	—	148	—
Total price risk management liabilities	$74	$—	$74	$ —	$174	$—	$174	$ —
PPL Electric								
Assets								
Cash and cash equivalents	$489	$489	$—	$ —	$49	$49	$—	$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	$491	$491	$—	$ —	$51	$51	$—	$ —
LKE								
Assets								
Cash and cash equivalents	$39	$39	$—	$ —	$30	$30	$—	$ —
Total assets	$39	$39	$—	$ —	$30	$30	$—	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$21	$—	$21	$ —	$26	$—	$26	$ —
Total price risk management liabilities	$21	$—	$21	$ —	$26	$—	$26	$ —
LG&E								
Assets								

Cash and cash equivalents	$19	$19	$—	$ —	$15	$15	$—	$ —
Total assets	$19	$19	$—	$ —	$15	$15	$—	$ —

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	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								