

PPL Corp  
 Form 10-Q  
 November 01, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934 for the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
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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
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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
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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
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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
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1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia)	61-0247570
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One Quality Street  
Lexington, KY 40507-1462  
(502) 627-2000

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

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

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

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

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

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

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

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

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

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



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

PPL Corporation	Common stock, \$0.01 par value, 688,464,316 shares outstanding at October 25, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.

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

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

FORM 10-Q  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - PPL's at-the-market common stock offering program.

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

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

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

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

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

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

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

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

DNO - Distribution Network Operator in the U.K.

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

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

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

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

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

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

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

EPS - Earnings per share.

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

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

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

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

IBEW - International Brotherhood of Electrical Workers.

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

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

LCIDA - Lehigh County Industrial Development Authority.

LIBOR - London Interbank Offered Rate.



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

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

MW - megawatt, one thousand kilowatts.

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

NERC - North American Electric Reliability Corporation.

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

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

OCI - other comprehensive income or loss.

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

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

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

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

PP&E - property, plant and equipment.

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

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

RCRA - Resource Conservation and Recovery Act of 1976.

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

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

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

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

operators of U.K. electricity distribution networks, which will begin in April 2023.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Forward-looking Information

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

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

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

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

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

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



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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

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

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



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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

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Effect of Exchange Rates on Cash and Cash Equivalents	7	(26 )
Net Increase (Decrease) in Cash and Cash Equivalents	335	(420 )
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	\$676	\$416

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$373	\$293
Accrued expenditures for intangible assets at September 30,	\$60	\$104

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 676	\$ 341
Accounts receivable (less reserve: 2017, \$52; 2016, \$54)		
Customer	617	666
Other	96	46
Unbilled revenues	405	480
Fuel, materials and supplies	323	356
Prepayments	101	63
Price risk management assets	57	63
Other current assets	56	52
Total Current Assets	2,331	2,067
Property, Plant and Equipment		
Regulated utility plant	36,678	34,674
Less: accumulated depreciation - regulated utility plant	6,624	6,013
Regulated utility plant, net	30,054	28,661
Non-regulated property, plant and equipment	422	413
Less: accumulated depreciation - non-regulated property, plant and equipment	154	134
Non-regulated property, plant and equipment, net	268	279
Construction work in progress	1,494	1,134
Property, Plant and Equipment, net	31,816	30,074
Other Noncurrent Assets		
Regulatory assets	1,869	1,918
Goodwill	3,134	3,060
Other intangibles	666	700
Pension benefit asset	532	9
Price risk management assets	267	336
Other noncurrent assets	143	151
Total Other Noncurrent Assets	6,611	6,174
Total Assets	\$ 40,758	\$ 38,315

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

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

(a) 1,560,000 shares authorized; 688,133 and 679,731 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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





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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778 )	\$ 9,899
Common stock issued	8,402		303			303
Stock-based compensation			(22 )			(22 )
Net income				1,050		1,050
Dividends and dividend equivalents				(813 )		(813 )
Other comprehensive income (loss)					275	275
September 30, 2017	688,133	\$ 7	\$ 10,122	\$ 4,066	\$ (3,503 )	\$ 10,692
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728 )	\$ 9,919
Common stock issued	5,411		168			168
Stock-based compensation			(31 )			(31 )
Net income				1,437		1,437
Dividends and dividend equivalents				(773 )		(773 )
Other comprehensive income (loss)					(752 )	(752 )
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
September 30, 2016	679,268	\$ 7	\$ 9,824	\$ 3,624	\$ (3,480 )	\$ 9,975

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

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

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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

(a) Net income equals comprehensive income.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30, 2017 2016	
<b>Cash Flows from Operating Activities</b>		
Net income	\$251	\$263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	228	185
Amortization	25	19
Defined benefit plans - expense	10	9
Deferred income taxes and investment tax credits	129	151
Other	(8 )	(14 )
Change in current assets and current liabilities		
Accounts receivable	7	(6 )
Accounts payable	(38 )	(1 )
Unbilled revenues	30	10
Prepayments	(31 )	29
Regulatory assets and liabilities, net	—	(41 )
Taxes payable	10	(6 )
Other	(9 )	(13 )
Other operating activities		
Defined benefit plans - funding	(24 )	—
Other assets	(2 )	15
Other liabilities	(3 )	(5 )
Net cash provided by operating activities	575	595
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(851 )	(739 )
Expenditures for intangible assets	(7 )	(3 )
Net increase in notes receivable from affiliate	(2 )	—
Other investing activities	2	2
Net cash used in investing activities	(858 )	(740 )
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	470	224
Retirement of long-term debt	—	(224 )
Contributions from parent	575	200
Payment of common stock dividends to parent	(231 )	(193 )
Net increase (decrease) in short-term debt	(295 )	130
Other financing activities	(6 )	(3 )
Net cash provided by financing activities	513	134
Net Increase (Decrease) in Cash and Cash Equivalents	230	(11 )

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Cash and Cash Equivalents at Beginning of Period	13	47
Cash and Cash Equivalents at End of Period	\$243	\$36

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$190	\$166
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 243	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$28)		
Customer	275	272
Other	10	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	2	—
Unbilled revenues	84	114
Materials and supplies	31	32
Prepayments	40	9
Regulatory assets	14	19
Other current assets	11	8
Total Current Assets	711	488
Property, Plant and Equipment		
Regulated utility plant	10,449	9,654
Less: accumulated depreciation - regulated utility plant	2,880	2,714
Regulated utility plant, net	7,569	6,940
Construction work in progress	699	641
Property, Plant and Equipment, net	8,268	7,581
Other Noncurrent Assets		
Regulatory assets	1,073	1,094
Intangibles	256	251
Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,344	1,357
Total Assets	\$ 10,323	\$ 9,426

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 295
Long-term debt due within one year	—	224
Accounts payable	397	367
Accounts payable to affiliates	38	42
Taxes	22	12
Interest	38	34
Regulatory liabilities	72	83
Other current liabilities	90	101
Total Current Liabilities	657	1,158
Long-term Debt	3,298	2,607
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,036	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	89	90
Total Deferred Credits and Other Noncurrent Liabilities	2,382	2,270
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154
Earnings reinvested	893	873
Total Equity	3,986	3,391
Total Liabilities and Equity	\$ 10,323	\$ 9,426

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

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

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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$3,391
Net income				251	251
Capital contributions from PPL			575		575
Dividends declared on common stock				(231 )	(231 )
September 30, 2017	66,368	\$ 364	\$ 2,729	\$ 893	\$3,986
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$3,119
Net income				263	263
Capital contributions from PPL			200		200
Dividends declared on common stock				(193 )	(193 )
September 30, 2016	66,368	\$ 364	\$ 2,134	\$ 891	\$3,389

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

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



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

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

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$132	\$133	\$322	\$337
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$7, (\$1)	(1 )	—	(12 )	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	1	(1 )
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial loss, net of tax of \$0, \$0, (\$2), (\$1)	1	1	3	3
Total other comprehensive income (loss)	—	1	(7 )	4
Comprehensive income	\$132	\$134	\$315	\$341

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

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

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,                      \$142    \$86

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

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

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 40	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	215	235
Other	43	17
Accounts receivable from affiliates	1	—
Unbilled revenues	151	170
Fuel, materials and supplies	264	297
Prepayments	27	24
Regulatory assets	20	20
Other current assets	8	4
Total Current Assets	769	780
Property, Plant and Equipment		
Regulated utility plant	12,906	12,746
Less: accumulated depreciation - regulated utility plant	1,685	1,465
Regulated utility plant, net	11,221	11,281
Construction work in progress	574	317
Property, Plant and Equipment, net	11,795	11,598
Other Noncurrent Assets		
Regulatory assets	796	824
Goodwill	996	996
Other intangibles	88	95
Other noncurrent assets	71	78
Total Other Noncurrent Assets	1,951	1,993
Total Assets	\$ 14,515	\$ 14,371

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	283	251
Accounts payable to affiliates	8	6
Customer deposits	57	56
Taxes	52	39
Price risk management liabilities	5	4
Regulatory liabilities	15	18
Interest	73	32
Asset retirement obligations	94	60
Other current liabilities	125	119
Total Current Liabilities	1,159	1,127
Long-term Debt		
Long-term debt	4,570	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,970	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,909	1,735
Investment tax credits	130	132
Accrued pension obligations	345	350
Asset retirement obligations	261	373
Regulatory liabilities	873	899
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	178	190
Total Deferred Credits and Other Noncurrent Liabilities	3,720	3,706
Commitments and Contingent Liabilities (Notes 6 and 9)		
Member's Equity	4,666	4,667
Total Liabilities and Equity	\$ 14,515	\$ 14,371

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



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

	Member's Equity
December 31, 2016	\$ 4,667
Net income	322
Distributions to member	(316 )
Other comprehensive income	(7 )
September 30, 2017	\$ 4,666
December 31, 2015	\$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224 )
Other comprehensive income	4
September 30, 2016	\$ 4,671

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



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## CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

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

(a) Net income equals comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

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

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$83	\$46
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	96	109
Other	14	11
Accounts receivable from affiliates	22	28
Unbilled revenues	64	75
Fuel, materials and supplies	137	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	2	1
Total Current Assets	370	393
Property, Plant and Equipment		
Regulated utility plant	5,447	5,357
Less: accumulated depreciation - regulated utility plant	575	498
Regulated utility plant, net	4,872	4,859
Construction work in progress	279	133
Property, Plant and Equipment, net	5,151	4,992
Other Noncurrent Assets		
Regulatory assets	413	450
Goodwill	389	389
Other intangibles	54	59
Other noncurrent assets	13	17
Total Other Noncurrent Assets	869	915
Total Assets	\$ 6,390	\$ 6,300

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

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## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 169
Long-term debt due within one year	98	194
Notes payable with affiliate	10	—
Accounts payable	166	148
Accounts payable to affiliates	17	26
Customer deposits	27	27
Taxes	25	40
Price risk management liabilities	5	4
Regulatory liabilities	5	5
Interest	23	11
Asset retirement obligations	33	41
Other current liabilities	46	36
Total Current Liabilities	645	701
Long-term Debt	1,521	1,423
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,073	974
Investment tax credits	36	36
Accrued pension obligations	47	53
Asset retirement obligations	85	104
Regulatory liabilities	388	419
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	84	87
Total Deferred Credits and Other Noncurrent Liabilities	1,737	1,700
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	381	370
Total Equity	2,487	2,476
Total Liabilities and Equity	\$ 6,390	\$ 6,300

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

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

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## CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$2,476
Net income				161	161
Cash dividends declared on common stock				(150 )	(150 )
September 30, 2017	21,294	\$ 424	\$ 1,682	\$ 381	\$2,487
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$2,330
Net income				159	159
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(87 )	(87 )
September 30, 2016	21,294	\$ 424	\$ 1,658	\$ 367	\$2,449

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

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



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## CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

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

(a) Net income approximates comprehensive income.

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

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## CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

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

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Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	\$31	\$7

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$58	\$40
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 31	\$ 7
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	119	126
Other	28	5
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	10	—
Unbilled revenues	87	95
Fuel, materials and supplies	127	154
Prepayments	14	12
Regulatory assets	9	11
Other current assets	6	3
Total Current Assets	432	413
Property, Plant and Equipment		
Regulated utility plant	7,452	7,382
Less: accumulated depreciation - regulated utility plant	1,110	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	293	181
Property, Plant and Equipment, net	6,635	6,598
Other Noncurrent Assets		
Regulatory assets	383	374
Goodwill	607	607
Other intangibles	34	36
Other noncurrent assets	55	57
Total Other Noncurrent Assets	1,079	1,074
Total Assets	\$ 8,146	\$ 8,085

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

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## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 16
Accounts payable	105	78
Accounts payable to affiliates	42	56
Customer deposits	30	29
Taxes	24	45
Regulatory liabilities	10	13
Interest	38	16
Asset retirement obligations	61	19
Other current liabilities	35	36
Total Current Liabilities	345	308
Long-term Debt	2,328	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,289	1,170
Investment tax credits	94	96
Accrued pension obligations	37	62
Asset retirement obligations	176	269
Regulatory liabilities	485	480
Other deferred credits and noncurrent liabilities	43	50
Total Deferred Credits and Other Noncurrent Liabilities	2,124	2,127
Commitments and Contingent Liabilities (Notes 6 and 9)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1 )
Earnings reinvested	425	400
Total Equity	3,349	3,323
Total Liabilities and Equity	\$ 8,146	\$ 8,085

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

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



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## CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1 )	\$3,323
Net income				196		196
Cash dividends declared on common stock				(171 )		(171 )
Other comprehensive income					1	1
September 30, 2017	37,818	\$ 308	\$ 2,616	\$ 425	\$ —	\$3,349
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$3,287
Capital contributions from LKE			20			20
Net income				207		207
Cash dividends declared on common stock				(197 )		(197 )
Other comprehensive income (loss)					(1 )	(1 )
September 30, 2016	37,818	\$ 308	\$ 2,616	\$ 393	\$ (1 )	\$3,316

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

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



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Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

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

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

2. Summary of Significant Accounting Policies

(PPL and PPL Electric)

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

Accounts Receivable

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and nine months ended September 30, 2017, PPL Electric purchased \$324 million and \$968 million of accounts receivable from alternative energy suppliers. During the three and nine months ended September 30, 2016, PPL Electric purchased \$365 million and \$1.0 billion of accounts receivable from alternative electricity suppliers.

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## 3. Segment and Related Information

(PPL)

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

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

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

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

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

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

(a) Includes \$11.7 billion and \$10.8 billion of net PP&E as of September 30, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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

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

4. Earnings Per Share

(PPL)

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

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

	Three Months		Nine Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	\$355	\$ 473	\$1,050	\$ 1,437
Less amounts allocated to participating securities	1	1	2	4
Net income available to PPL common shareowners - Basic and Diluted	\$354	\$ 472	\$1,048	\$ 1,433
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	686,568	78,114	683,783	676,905
Add incremental non-participating securities:				
Share-based payment awards	2,183	2,234	2,298	3,064
Weighted-average shares - Diluted EPS	688,746	80,348	686,081	679,969
Basic EPS				
Net Income available to PPL common shareowners	\$0.52	\$ 0.70	\$ 1.53	\$ 2.12
Diluted EPS				
Net Income available to PPL common shareowners	\$0.51	\$ 0.69	\$ 1.53	\$ 2.11

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

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

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

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

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

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

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## 5. Income Taxes

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

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

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

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

(PPL Electric)

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

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

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

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## (LG&amp;E)

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

## (KU)

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

## 6. Utility Rate Regulation

## (All Registrants)

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

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

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

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	PPL		PPL Electric			
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016		
<b>Current Regulatory Liabilities:</b>						
Generation supply charge	\$ 29	\$ 23	\$ 29	\$ 23		
Transmission service charge	6	—	6	—		
Universal service rider	19	14	19	14		
Transmission formula rate	4	15	4	15		
Fuel adjustment clause	11	11	—	—		
Act 129 compliance rider	7	17	7	17		
Storm damage expense	7	13	7	13		
Other	4	8	—	1		
Total current regulatory liabilities	\$ 87	\$ 101	\$ 72	\$ 83		
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ —	\$ —		
Power purchase agreement - OVEC (b)	69	75	—	—		
Net deferred tax assets	21	23	—	—		
Defined benefit plans	27	23	—	—		
Terminated interest rate swaps	74	78	—	—		
Other	4	—	—	—		
Total noncurrent regulatory liabilities	\$ 873	\$ 899	\$ —	\$ —		
	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
<b>Current Regulatory Assets:</b>						
Environmental cost recovery	\$ 4	\$ 6	\$ 4	\$ 6	\$ —	\$ —
Generation formula rate	8	11	—	—	8	11
Gas supply clause	6	3	6	3	—	—
Other	2	—	1	—	1	—
Total current regulatory assets	\$ 20	\$ 20	\$ 11	\$ 9	\$ 9	\$ 11
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 378	\$ 398	\$ 235	\$ 246	\$ 143	\$ 152
Storm costs	37	48	20	26	17	22
Unamortized loss on debt	25	25	16	16	9	9
Interest rate swaps	29	31	29	31	—	—
Terminated interest rate swaps	93	98	54	57	39	41
AROs	224	211	57	70	167	141
Plant retirement costs	2	4	—	—	2	4
Other	8	9	2	4	6	5
Total noncurrent regulatory assets	\$ 796	\$ 824	\$ 413	\$ 450	\$ 383	\$ 374

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	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
<b>Current Regulatory Liabilities:</b>						
Demand side management	\$ —	\$ 3	\$ —	\$ 2	\$ —	\$ 1
Fuel adjustment clause	11	11	3	2	8	9
Other	4	4	2	1	2	3
Total current regulatory liabilities	\$ 15	\$ 18	\$ 5	\$ 5	\$ 10	\$ 13
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ 281	\$ 305	\$ 397	\$ 395
Power purchase agreement - OVEC (b)	69	75	48	52	21	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	4	—	1	—	3	—
Total noncurrent regulatory liabilities	\$ 873	\$ 899	\$ 388	\$ 419	\$ 485	\$ 480

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

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

## Regulatory Matters

## Kentucky Activities

(PPL, LKE, LG&E and KU)

## Rate Case Proceedings

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

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

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

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

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## Gas Franchise (LKE and LG&amp;E)

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

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. On September 28, 2017, oral arguments were heard by the KPSC and a final order is expected in 2017. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

## 7. Financing Activities

## Credit Arrangements and Short-term Debt

(All Registrants)

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

	September 30, 2017			December 31, 2016			
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
WPD plc							
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 155	£ —	£ 54	£ 160	£ —
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—
WPD (South West)							
Syndicated Credit Facility (c)	July 2021	245	—	—	245	110	—
WPD (East Midlands)							
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—

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WPD (West Midlands)

Syndicated Credit Facility	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities (e)		100	70	4	26	60	4
Total U.K. Credit Facilities (f)		£ 1,385	£ 571	£ 4	£ 809	£ 339	£ 4

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	September 30, 2017				December 31, 2016	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Letters of Credit and Borrowed Commercial Paper Issued
U.S.						
PPL Capital Funding						
Syndicated Credit Facility	Jan. 2022	\$ 950	\$	—\$ 285	\$ 665	\$—\$ 20
Syndicated Credit Facility	Nov. 2018	300	—	—	300	— —
Bilateral Credit Facility	Mar. 2018	150	—	18	132	— 17
Total PPL Capital Funding Credit Facilities		\$ 1,400	\$	—\$ 303	\$ 1,097	\$—\$ 37
PPL Electric						
Syndicated Credit Facility	Jan. 2022	\$ 650	\$	—\$ 1	\$ 649	\$—\$ 296
LKE						
Syndicated Credit Facility	Oct. 2018	\$ 75	\$	—\$ —	\$ 75	\$—\$ —
LG&E						
Syndicated Credit Facility	Jan. 2022	\$ 500	\$	—\$ 190	\$ 310	\$—\$ 169
KU						
Syndicated Credit Facility	Jan. 2022	\$ 400	\$	—\$ —	\$ 400	\$—\$ 16
Letter of Credit Facility	Oct. 2020	198	—	198	—	— 198
Total KU Credit Facilities						