PPL Corp
Form 10-Q
November 01, 2016

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2016

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462	61-0247570

(502) 627-2000

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting 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]	[ ]

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

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, 679,627,323 shares outstanding at October 26, 2016.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 26, 2016.
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 26, 2016.

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 26, 2016.

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.

PPL CORPORATION
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, 2016

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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.

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services 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 support services and corporate functions such as financial, supply chain, human resources and facilities management services primarily to PPL Electric and its affiliates.

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 and parent to WPD plc.

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.

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

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Other terms and abbreviations

£ - British pound sterling.

2015 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2015.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to the Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

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 amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and changes to the Alternative Energy Portfolio Standard (AEPS).

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, but also are 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.

Article 50 of the Lisbon Treaty - The Treaty of Lisbon is an international agreement which amends the two treaties which form the constitutional basis of the European Union, and came into force on December 1, 2009. Under Article 50 of this treaty, any member state of the European Union may decide to withdraw from the Union in accordance with its own constitutional requirements.

ARO - asset retirement obligation.

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

BSER - Best System of Emission Reduction. The degree of emission reduction that 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.

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.

DPCR4 - Distribution Price Control Review 4, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2005.

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DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

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 plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of costs and revenues lost by implementing DSM programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

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 by-products 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.

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.

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

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).

MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

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.

NSR - The new source review provisions of the Clean Air Act that impose stringent emission control requirements on new and modified sources of air emissions that result in emission increases beyond thresholds allowed by the Clean Air Act.

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.

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.

PPL EnergyPlus - prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

PPL Energy Supply - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL EnergyPlus and other subsidiaries.

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. Since the beginning of DPCR5 in April 2010, RAV additions have been based on a percentage of annual total expenditures, which have continued from April 2015 under RIIO-ED1. RAV is intended to represent 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-ED1 - RIIO represents "Revenues = Incentive + Innovation + Outputs." RIIO-ED1 refers to the initial eight-year rate review period applicable to WPD which commenced April 1, 2015.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy other than the competitive power generation business contributed by virtue of the spinoff of a newly formed parent of PPL Energy Supply.

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

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

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

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

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

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.

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

Talen Energy Marketing - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus subsequent to the spinoff of PPL Energy Supply.

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.

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 2015 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.

- challenges by intervenors to the return on equity granted in existing rate structures;
- fuel supply and cost;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting transmission and distribution operations, and customer energy use;
- availability and operating costs of existing generation facilities;
- the duration of and cost associated with outages at our generating facilities;
- generation, transmission and distribution system conditions, and operating costs;
- expansion of alternative and distributed sources of electricity generation and storage;
- collective labor bargaining negotiations;
- laws or regulations to reduce emissions of "greenhouse" gases or physical effects of climate change;
- the outcome of litigation against the Registrants and their subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of the Registrants and their subsidiaries;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- the effect of the June 23, 2016 referendum in the U.K. to withdraw from the European Union;
- our ability to attract and retain qualified employees;
- volatility in demand for electricity;
- market prices of commodity inputs for ongoing capital expenditures or key operational needs;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- volatility 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 and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- changes in foreign currency exchange rates for British pound sterling;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
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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, approvals and rate relief;
- new state, federal or foreign legislation or regulatory developments;
- the outcome of any rate cases or other cost recovery or revenue filings by PPL Electric, LG&E, KU or WPD;
- the achievement of performance targets set by Ofgem;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues	$1,889	$1,878	$5,685	$5,889
Operating Expenses				
Operation				
Fuel	227	228	607	695
Energy purchases	151	177	531	676
Other operation and maintenance	417	482	1,292	1,405
Depreciation	232	226	692	658
Taxes, other than income	76	79	229	241
Total Operating Expenses	1,103	1,192	3,351	3,675
Operating Income	786	686	2,334	2,214
Other Income (Expense) - net	49	75	284	61
Interest Expense	223	221	671	645
Income from Continuing Operations Before Income Taxes	612	540	1,947	1,630
Income Taxes	139	144	510	432
Income from Continuing Operations After Income Taxes	473	396	1,437	1,198
Income (Loss) from Discontinued Operations (net of income taxes) (Note 8)	—	(3)	—	(915)
Net Income	$473	$393	$1,437	$283
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes:				
Basic	$0.70	$0.59	$2.12	$1.78
Diluted	$0.69	$0.59	$2.11	$1.78
Net Income:				
Basic	$0.70	$0.58	$2.12	$0.42
Diluted	$0.69	$0.58	$2.11	$0.42
Dividends Declared Per Share of Common Stock	$0.38	$0.3775	$1.14	$1.1225

Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	678,114670,763	676,905668,731
Diluted	680,348673,702	679,969671,254

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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$473	$393	$1,437	$283
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), ($3), ($4), ($2)	(641)	52	(837)	(97)
Available-for-sale securities, net of tax of $0, $0, $0, ($9)	—	—	—	7
Qualifying derivatives, net of tax of ($16), $11, ($9), $4	62	(19)	57	8
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, $0, $4	—	—	—	(6)
Net actuarial gain (loss), net of tax of $4, $0, $3, ($36)	(6)	—	(4)	52
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $0, $2	—	—	—	(2)
Qualifying derivatives, net of tax of $17, ($3), $15, ($23)	(69)	10	(62)	20
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $1	—	—	(1)	(1)
Defined benefit plans:				
Prior service costs, net of tax of ($1), $0, ($1), $0	—	—	1	—
Net actuarial loss, net of tax of ($10), ($10), ($27), ($35)	31	35	94	111
Total other comprehensive income (loss)	(623)	78	(752)	92
Comprehensive income (loss)	$(150)	$471	$685	$375

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, 2016	2015
Cash Flows from Operating Activities		
Net income	$1,437	$283
(Income) Loss from discontinued operations (net of income taxes)	—	915
Income from continuing operations (net of income taxes)	1,437	1,198
Adjustments to reconcile Income from continuing operations (net of taxes) to net cash provided by operating activities - continuing operations		
Depreciation	692	658
Amortization	54	46
Defined benefit plans - expense (income)	(29)	44
Deferred income taxes and investment tax credits	436	359
Unrealized (gains) losses on derivatives, and other hedging activities	107	(17)
Stock-based compensation expense	23	26
Other	(12)	9
Change in current assets and current liabilities		
Accounts receivable	(29)	(5)
Accounts payable	(40)	(180)
Unbilled revenues	32	91
Fuel, materials and supplies	8	60
Prepayments	(34)	(43)
Taxes payable	40	(142)
Regulatory assets and liabilities, net	(32)	46
Other	(21)	(5)
Other operating activities		
Defined benefit plans - funding	(345)	(396)
Settlement of interest rate swaps	—	(88)
Other assets	18	(42)
Other liabilities	(75)	69
Net cash provided by operating activities - continuing operations	2,230	1,688
Net cash provided by operating activities - discontinued operations	—	343
Net cash provided by operating activities	2,230	2,031
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,073)	(2,560)
Expenditures for intangible assets	(23)	(32)
Proceeds from the sale of other investments	2	136
Other investing activities	28	(7)
Net cash provided by (used in) investing activities - continuing operations	(2,066)	(2,463)
Net cash provided by (used in) investing activities - discontinued operations	—	(149)
Net cash provided by (used in) investing activities	(2,066)	(2,612)
Cash Flows from Financing Activities		
Issuance of long-term debt	1,241	1,137

Retirement of long-term debt	(905)	—
Settlement of cross-currency swaps	46	—
Issuance of common stock	133	145
Payment of common stock dividends	(772)	(750)
Net increase (decrease) in short-term debt	(268)	(271)
Other financing activities	(33)	(30)
Net cash provided by (used in) financing activities - continuing operations	(558)	231
Net cash provided by (used in) financing activities - discontinued operations	—	(546)
Net cash distributions to parent from discontinued operations	—	132
Net cash provided by (used in) financing activities	(558)	(183)
Effect of Exchange Rates on Cash and Cash Equivalents	(26)	(6)
Net (Increase) Decrease in Cash and Cash Equivalents included in Discontinued Operations	—	352
Net Increase (Decrease) in Cash and Cash Equivalents	(420)	(418)
Cash and Cash Equivalents at Beginning of Period	836	1,399
Cash and Cash Equivalents at End of Period	$416	$981

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 416	$ 836
Accounts receivable (less reserve: 2016, $48; 2015, $41)		
Customer	687	673
Other	45	59
Unbilled revenues	393	453
Fuel, materials and supplies	346	357
Prepayments	97	66
Price risk management assets	78	139
Other current assets	37	63
Total Current Assets	2,099	2,646
Property, Plant and Equipment		
Regulated utility plant	34,427	34,399
Less: accumulated depreciation - regulated utility plant	5,938	5,683
Regulated utility plant, net	28,489	28,716
Non-regulated property, plant and equipment	451	516
Less: accumulated depreciation - non-regulated property, plant and equipment	155	165
Non-regulated property, plant and equipment, net	296	351
Construction work in progress	1,184	1,315
Property, Plant and Equipment, net	29,969	30,382
Other Noncurrent Assets		
Regulatory assets	1,765	1,733
Goodwill	3,175	3,550
Other intangibles	693	679
Price risk management assets	185	156
Other noncurrent assets	152	155
Total Other Noncurrent Assets	5,970	6,273
Total Assets	$ 38,038	$ 39,301

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, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 636	$ 916
Long-term debt due within one year	443	485
Accounts payable	741	812
Taxes	117	85
Interest	315	303
Dividends	259	255
Customer deposits	302	326
Regulatory liabilities	120	145
Other current liabilities	479	549
Total Current Liabilities	3,412	3,876
Long-term Debt	18,069	18,563
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,810	3,440
Investment tax credits	133	128
Accrued pension obligations	878	1,405
Asset retirement obligations	413	536
Regulatory liabilities	911	945
Other deferred credits and noncurrent liabilities	437	489
Total Deferred Credits and Other Noncurrent Liabilities	6,582	6,943
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - $0.01 par value (a)	7	7
Additional paid-in capital	9,824	9,687
Earnings reinvested	3,624	2,953
Accumulated other comprehensive loss	(3,480)	(2,728)
Total Equity	9,975	9,919
Total Liabilities and Equity	$ 38,038	$ 39,301

(a) 1,560,000 shares authorized; 679,268 shares issued and outstanding at September 30, 2016; 780,000 shares authorized; 673,857 shares issued and outstanding at December 31, 2015.

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, 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 (Note 2)				7		7
September 30, 2016	679,268	$ 7	$ 9,824	$ 3,624	$ (3,480)	$ 9,975
December 31, 2014	665,849	$ 7	$ 9,433	$ 6,462	$ (2,274)	$ 13,628
Common stock issued	5,943		183			183
Stock-based compensation			14			14
Net income				283		283
Dividends and dividend equivalents				(754)		(754)
Distribution of PPL Energy Supply (Note 8)				(3,200)	(24)	(3,224)
Other comprehensive income (loss)					92	92
September 30, 2015	671,792	$ 7	$ 9,630	$ 2,791	$ (2,206)	$ 10,222

(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,	
	2016	2015	2016	2015
Operating Revenues	$539	$519	$1,619	$1,625
Operating Expenses				
Operation				
Energy purchases	129	154	414	519
Energy purchases from affiliate	—	—	—	14
Other operation and maintenance	144	162	431	435
Depreciation	64	55	185	158
Taxes, other than income	26	27	79	87
Total Operating Expenses	363	398	1,109	1,213
Operating Income	176	121	510	412
Other Income (Expense) - net	4	1	12	5
Interest Expense	32	32	97	96
Income Before Income Taxes	148	90	425	321
Income Taxes	58	35	162	130
Net Income (a)	$90	$55	$263	$191

(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,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$263	$191
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	185	158
Amortization	19	19
Defined benefit plans - expense	9	13
Deferred income taxes and investment tax credits	151	127
Other	(14)	(9)
Change in current assets and current liabilities		
Accounts receivable	(6)	18
Accounts payable	(1)	(140)
Unbilled revenue	10	28
Prepayments	29	(17)
Regulatory assets and liabilities	(41)	46
Taxes payable	(6)	(50)
Other	(13)	13
Other operating activities		
Defined benefit plans - funding	—	(33)
Other assets	15	(6)
Other liabilities	(5)	15
Net cash provided by operating activities	595	373
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(739)	(758)
Expenditures for intangible assets	—	(9)
Other investing activities	(1)	3
Net cash provided by (used in) investing activities	(740)	(764)
Cash Flows from Financing Activities		
Issuance of long-term debt	224	—
Retirement of long-term debt	(224)	—
Contributions from parent	200	275
Payment of common stock dividends to parent	(193)	(140)
Net increase (decrease) in short-term debt	130	68
Other financing activities	(3)	—
Net cash provided by (used in) financing activities	134	203
Net Increase (Decrease) in Cash and Cash Equivalents	(11)	(188)
Cash and Cash Equivalents at Beginning of Period	47	214

Cash and Cash Equivalents at End of Period	$36	$26

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 36	$ 47
Accounts receivable (less reserve: 2016, $22; 2015, $16)		
Customer	290	286
Other	12	10
Unbilled revenues	81	91
Materials and supplies	28	34
Prepayments	37	66
Other current assets	15	21
Total Current Assets	499	555
Property, Plant and Equipment		
Regulated utility plant	9,360	8,734
Less: accumulated depreciation - regulated utility plant	2,698	2,573
Regulated utility plant, net	6,662	6,161
Construction work in progress	657	530
Property, Plant and Equipment, net	7,319	6,691
Other Noncurrent Assets		
Regulatory assets	991	1,006
Intangibles	247	244
Other noncurrent assets	14	15
Total Other Noncurrent Assets	1,252	1,265
Total Assets	$ 9,070	$ 8,511

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, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 130	$ —
Long-term debt due within one year	224	—
Accounts payable	357	288
Accounts payable to affiliates	33	35
Taxes	18	24
Interest	31	37
Regulatory liabilities	94	113
Customer deposits	22	31
Other current liabilities	69	77
Total Current Liabilities	978	605
Long-term Debt	2,607	2,828
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,823	1,663
Accrued pension obligations	185	183
Regulatory liabilities	—	22
Other deferred credits and noncurrent liabilities	88	91
Total Deferred Credits and Other Noncurrent Liabilities	2,096	1,959
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,134	1,934
Earnings reinvested	891	821
Total Equity	3,389	3,119
Total Liabilities and Equity	$ 9,070	$ 8,511

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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, 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
December 31, 2014	66,368	$ 364	$ 1,603	$ 750	$2,717
Net income				191	191
Capital contributions from PPL (b)			322		322
Dividends declared on common stock				(140)	(140)
September 30, 2015	66,368	$ 364	$ 1,925	$ 801	$3,090

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) Includes non-cash contributions of $47 million.

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,	
	2016	2015	2016	2015
Operating Revenues	$835	$801	$2,382	$2,414
Operating Expenses				
Operation				
Fuel	227	228	607	695
Energy purchases	24	23	118	143
Other operation and maintenance	197	202	603	625
Depreciation	102	97	301	286
Taxes, other than income	16	14	46	43
Total Operating Expenses	566	564	1,675	1,792
Operating Income	269	237	707	622
Other Income (Expense) - net	(3)	(1)	(9)	(3)
Interest Expense	50	43	147	127
Interest Expense with Affiliate	4	—	12	1
Income Before Income Taxes	212	193	539	491
Income Taxes	79	73	202	194
Net Income	$133	$120	$337	$297

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$133	$120	$337	$297
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, ($1), $5	—	—	1	(8)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $1	—	—	(1)	(1)
Defined benefit plans:				
Prior service costs, net of tax of ($1), $0, ($1), $0	—	—	1	1
Net actuarial loss, net of tax of $0, $0, ($1), ($1)	1	1	3	2
Total other comprehensive income (loss)	1	1	4	(6)
Comprehensive income (loss)	$134	$121	$341	$291

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

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$337	$297
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	301	286
Amortization	21	18
Defined benefit plans - expense	20	29
Deferred income taxes and investment tax credits	212	199
Other	—	29
Change in current assets and current liabilities		
Accounts receivable	(43)	(1)
Accounts payable	7	(34)
Accounts payable to affiliates	4	(7)
Unbilled revenues	6	19
Fuel, materials and supplies	7	43
Income tax receivable	—	132
Accrued interest	42	37
Other	(4)	(2)
Other operating activities		
Defined benefit plans - funding	(82)	(66)
Expenditures for asset retirement obligations	(15)	(5)
Settlement of interest rate swaps	—	(88)
Other assets	1	(4)
Other liabilities	2	13
Net cash provided by operating activities	816	895
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(600)	(928)
Other investing activities	1	7
Net cash provided by (used in) investing activities	(599)	(921)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	84	21
Issuance of long-term debt	221	1,050
Retirement of long-term debt	(221)	—
Net increase (decrease) in short-term debt	(130)	(500)
Debt issuance and credit facility costs	(3)	(9)
Distributions to member	(224)	(157)
Contributions from member	37	55
Net cash provided by (used in) financing activities	(236)	460
Net Increase (Decrease) in Cash and Cash Equivalents	(19)	434

Cash and Cash Equivalents at Beginning of Period	30	21
Cash and Cash Equivalents at End of Period	$11	$455

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 11	$ 30
Accounts receivable (less reserve: 2016, $24; 2015, $23)		
Customer	250	209
Other	13	17
Unbilled revenues	141	147
Fuel, materials and supplies	292	298
Prepayments	31	23
Regulatory assets	18	35
Other current assets	1	6
Total Current Assets	757	765
Property, Plant and Equipment		
Regulated utility plant	12,510	11,906
Less: accumulated depreciation - regulated utility plant	1,382	1,163
Regulated utility plant, net	11,128	10,743
Construction work in progress	349	660
Property, Plant and Equipment, net	11,477	11,403
Other Noncurrent Assets		
Regulatory assets	774	727
Goodwill	996	996
Other intangibles	103	123
Other noncurrent assets	80	76
Total Other Noncurrent Assets	1,953	1,922
Total Assets	$ 14,187	$ 14,090

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, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 135	$ 265
Long-term debt due within one year	219	25
Notes payable with affiliate	138	54
Accounts payable	216	266
Accounts payable to affiliates	9	5
Customer deposits	55	52
Taxes	49	46
Price risk management liabilities	6	5
Regulatory liabilities	26	32
Interest	74	32
Asset retirement obligations	54	50
Other current liabilities	111	135
Total Current Liabilities	1,092	967
Long-term Debt		
Long-term debt	4,470	4,663
Long-term debt to affiliate	400	400
Total Long-term Debt	4,870	5,063
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,673	1,463
Investment tax credits	132	128
Accrued pension obligations	242	296
Asset retirement obligations	368	485
Regulatory liabilities	911	923
Price risk management liabilities	48	42
Other deferred credits and noncurrent liabilities	180	206
Total Deferred Credits and Other Noncurrent Liabilities	3,554	3,543
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	4,671	4,517
Total Liabilities and Equity	$ 14,187	$ 14,090

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, 2015	$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224)
Other comprehensive income (loss)	4
September 30, 2016	$ 4,671
December 31, 2014	$ 4,248
Net income	297
Contributions from member	55
Distributions to member	(157)
Other comprehensive income (loss)	(6)
September 30, 2015	$ 4,437

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues				
Retail and wholesale	$366	$349	$1,058	$1,089
Electric revenue from affiliate	2	2	19	32
Total Operating Revenues	368	351	1,077	1,121
Operating Expenses				
Operation				
Fuel	86	82	233	267
Energy purchases	19	18	104	129
Energy purchases from affiliate	5	9	10	17
Other operation and maintenance	85	87	264	286
Depreciation	43	40	126	122
Taxes, other than income	9	7	24	21
Total Operating Expenses	247	243	761	842
Operating Income	121	108	316	279
Other Income (Expense) - net	(1)	(1)	(6)	(3)
Interest Expense	18	13	53	39
Income Before Income Taxes	102	94	257	237
Income Taxes	39	36	98	91
Net Income (a)	$63	$58	$159	$146

(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,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$159	$146
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	126	122
Amortization	10	9
Defined benefit plans - expense	6	10
Deferred income taxes and investment tax credits	117	93
Other	—	25
Change in current assets and current liabilities		
Accounts receivable	(19)	10
Accounts receivable from affiliates	(11)	4
Accounts payable	24	(14)
Accounts payable to affiliates	(6)	(1)
Unbilled revenues	10	13
Fuel, materials and supplies	11	21
Income tax receivable	2	74
Accrued interest	13	9
Other	1	8
Other operating activities		
Defined benefit plans - funding	(45)	(25)
Expenditures for asset retirement obligations	(11)	(4)
Settlement of interest rate swaps	—	(44)
Other assets	(3)	10
Other liabilities	(1)	3
Net cash provided by operating activities	383	469
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(343)	(519)
Net cash provided by (used in) investing activities	(343)	(519)
Cash Flows from Financing Activities		
Issuance of long-term debt	125	550
Retirement of long-term debt	(125)	—
Net increase (decrease) in short-term debt	(14)	(264)
Debt issuance and credit facility costs	(1)	(5)
Payment of common stock dividends to parent	(87)	(81)
Contributions from parent	47	20
Net cash provided by (used in) financing activities	(55)	220
Net Increase (Decrease) in Cash and Cash Equivalents	(15)	170
Cash and Cash Equivalents at Beginning of Period	19	10

Cash and Cash Equivalents at End of Period	$4	$180

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 4	$ 19
Accounts receivable (less reserve: 2016, $1; 2015, $1)		
Customer	109	92
Other	11	11
Accounts receivable from affiliates	23	12
Unbilled revenues	57	67
Fuel, materials and supplies	140	151
Prepayments	14	5
Regulatory assets	6	16
Other current assets	—	2
Total Current Assets	364	375
Property, Plant and Equipment		
Regulated utility plant	5,234	4,804
Less: accumulated depreciation - regulated utility plant	468	404
Regulated utility plant, net	4,766	4,400
Construction work in progress	155	390
Property, Plant and Equipment, net	4,921	4,790
Other Noncurrent Assets		
Regulatory assets	437	424
Goodwill	389	389
Other intangibles	63	73
Other noncurrent assets	21	17
Total Other Noncurrent Assets	910	903
Total Assets	$ 6,195	$ 6,068

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, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 128	$ 142
Long-term debt due within one year	219	25
Accounts payable	133	157
Accounts payable to affiliates	19	25
Customer deposits	26	26
Taxes	23	20
Price risk management liabilities	6	5
Regulatory liabilities	7	13
Interest	24	11
Asset retirement obligations	39	25
Other current liabilities	36	39
Total Current Liabilities	660	488
Long-term Debt	1,423	1,617
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	944	829
Investment tax credits	37	35
Accrued pension obligations	18	56
Asset retirement obligations	107	149
Regulatory liabilities	424	431
Price risk management liabilities	48	42
Other deferred credits and noncurrent liabilities	85	91
Total Deferred Credits and Other Noncurrent Liabilities	1,663	1,633
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,658	1,611
Earnings reinvested	367	295
Total Equity	2,449	2,330
Total Liabilities and Equity	$ 6,195	$ 6,068

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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, 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
December 31, 2014	21,294	$ 424	$ 1,521	$ 229	$2,174
Net income				146	146
Capital contributions from LKE			20		20
Cash dividends declared on common stock				(81)	(81)
September 30, 2015	21,294	$ 424	$ 1,541	$ 294	$2,259

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues				
Retail and wholesale	$469	$452	$1,324	$1,325
Electric revenue from affiliate	5	9	10	17
Total Operating Revenues	474	461	1,334	1,342
Operating Expenses				
Operation				
Fuel	141	146	374	428
Energy purchases	5	5	14	14
Energy purchases from affiliate	2	2	19	32
Other operation and maintenance	107	108	320	321
Depreciation	59	57	175	164
Taxes, other than income	7	7	22	22
Total Operating Expenses	321	325	924	981
Operating Income	153	136	410	361
Other Income (Expense) - net	(3)	—	(4)	1
Interest Expense	24	20	71	58
Income Before Income Taxes	126	116	335	304
Income Taxes	48	44	128	115
Net Income (a)	$78	$72	$207	$189

(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,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$207	$189
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	175	164
Amortization	10	8
Defined benefit plans - expense	4	9
Deferred income taxes and investment tax credits	122	132
Other	(1)	4
Change in current assets and current liabilities		
Accounts receivable	(24)	(11)
Accounts payable	(11)	(18)
Accounts payable to affiliates	2	(7)
Unbilled revenues	(4)	6
Fuel, materials and supplies	(4)	22
Income tax receivable	—	60
Accrued interest	22	19
Other	2	6
Other operating activities		
Defined benefit plans - funding	(19)	(20)
Expenditures for asset retirement obligations	(4)	(1)
Settlement of interest rate swaps	—	(44)
Other assets	(4)	(9)
Other liabilities	(4)	1
Net cash provided by operating activities	469	510
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(255)	(407)
Other investing activities	1	7
Net cash provided by (used in) investing activities	(254)	(400)
Cash Flows from Financing Activities		
Issuance of long-term debt	96	500
Retirement of long-term debt	(96)	—
Net increase (decrease) in short-term debt	(41)	(236)
Debt issuance and credit facility costs	(1)	(4)
Payment of common stock dividends to parent	(197)	(106)
Contributions from parent	20	—
Net cash provided by (used in) financing activities	(219)	154
Net Increase (Decrease) in Cash and Cash Equivalents	(4)	264
Cash and Cash Equivalents at Beginning of Period	11	11

Cash and Cash Equivalents at End of Period	$7	$275

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, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 7	$ 11
Accounts receivable (less reserve: 2016, $2; 2015, $2)		
Customer	141	117
Other	3	9
Accounts receivable from affiliates	1	1
Unbilled revenues	84	80
Fuel, materials and supplies	152	147
Prepayments	16	8
Regulatory assets	12	19
Other current assets	1	4
Total Current Assets	417	396
Property, Plant and Equipment		
Regulated utility plant	7,270	7,099
Less: accumulated depreciation - regulated utility plant	913	759
Regulated utility plant, net	6,357	6,340
Construction work in progress	192	267
Property, Plant and Equipment, net	6,549	6,607
Other Noncurrent Assets		
Regulatory assets	337	303
Goodwill	607	607
Other intangibles	40	50
Other noncurrent assets	56	48
Total Other Noncurrent Assets	1,040	1,008
Total Assets	$ 8,006	$ 8,011

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, 2016	December 31, 2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 7	$ 48
Accounts payable	67	88
Accounts payable to affiliates	42	39
Customer deposits	29	26
Taxes	23	20
Regulatory liabilities	19	19
Interest	38	16
Asset retirement obligations	15	25
Other current liabilities	35	44
Total Current Liabilities	275	325
Long-term Debt	2,327	2,326
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,166	1,046
Investment tax credits	95	93
Accrued pension obligations	33	46
Asset retirement obligations	261	336
Regulatory liabilities	487	492
Other deferred credits and noncurrent liabilities	46	60
Total Deferred Credits and Other Noncurrent Liabilities	2,088	2,073
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,596
Accumulated other comprehensive loss	(1)	—
Earnings reinvested	393	383
Total Equity	3,316	3,287
Total Liabilities and Equity	$ 8,006	$ 8,011

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2016 and December 31, 2015.

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, 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
December 31, 2014	37,818	$ 308	$ 2,596	$ 302	$ —	$ 3,206
Net income				189		189
Cash dividends declared on common stock				(106)		(106)
Other comprehensive income (loss)					(1)	(1)
September 30, 2015	37,818	$ 308	$ 2,596	$ 385	$ (1)	$ 3,288

(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.

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. 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, 2015 is derived from that Registrant's 2015 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 2015 Form 10-K. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2016 financial statements.

(PPL)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statement of Cash Flows for the nine months ended September 30, 2015 separately reports the cash flows of the discontinued operations. See Note 8 for additional information.

2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 to each indicated Registrant's 2015 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable (PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. During the three and nine months ended September 30, 2016, PPL Electric purchased $365 million and $1.0 billion of accounts receivable from unaffiliated third parties. During the three and nine months ended September 30, 2015, PPL Electric purchased $361 million and $968 million of accounts receivable from unaffiliated third parties. PPL Electric's purchases from PPL EnergyPlus for the nine months ended September 30, 2015 were $146 million. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

Discount Rate Change for U.K. Pension Plans (PPL)

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. For the three and nine months ended September 30, 2016, this

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change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statements of Income of $10 million ($8 million after-tax or $0.01 per share) and $31 million ($25 million after-tax or $0.04 per share).

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Certain financial information provided for future periods in PPL’s 2015 Form 10-K is impacted by the decrease in the GBP to U.S. dollar exchange rate that occurred subsequent to the U.K.'s vote on June 23, 2016 to withdraw from the European Union.

New Accounting Guidance Adopted (All Registrants)

Accounting for Stock-Based Compensation

Effective January 1, 2016, the Registrants adopted accounting guidance to simplify the accounting for share-based payment transactions. The guidance requires excess tax benefits and tax deficiencies to be recorded as income tax benefit or expense on the statement of income, eliminates the requirement that excess tax benefits be realized before companies can recognize them and changes the threshold for statutory income tax withholding requirements to qualify for equity classification to the maximum statutory tax rates in the applicable jurisdictions. This guidance also changes the classification of excess tax benefits to an operating activity and employee taxes paid when shares are withheld to satisfy the employer's statutory income tax withholding obligation to a financing activity on the statement of cash flows and allows entities to make a policy election to either estimate forfeitures or recognize them when they occur. The adoption of this guidance had the following impacts:

- Using the required prospective method of transition, for the three and nine months ended September 30, 2016, PPL recorded tax benefits of $1 million and $12 million ($0.02 per share), and for the nine months ended September 30, 2016, PPL Electric recorded tax benefits of $7 million, related to excess tax benefits for awards that were exercised and vested for the periods ending September 30, 2016. These amounts were recorded to Income taxes on the Statements of Income and Deferred income taxes on the Balance Sheets. The impact on LKE was not significant.

- PPL elected to use the prospective method of transition for classifying excess tax benefits as an Operating activity on the Statement of Cash Flows. The amounts classified as Financing activities in the prior periods were not significant.

- Upon adoption, using the required modified retrospective method of transition, PPL recorded a cumulative effect adjustment of $7 million to increase Earnings reinvested and decrease Deferred income taxes on the Balance Sheet related to prior period unrecognized excess tax benefits.

- PPL has historically presented employee taxes paid for net settled awards as a Financing activity on the Statement of Cash Flows. Therefore, there is no transition impact for this requirement.

- PPL has elected to recognize forfeitures when they occur. Due to past experience of insignificant forfeitures, there is no transition impact of this policy election.

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3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2015 Form 10-K for a discussion of reportable segments and related information.

Financial data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are:

	Three Months		Nine Months	
	2016	2015	2016	2015
Income Statement Data				
Revenues from external customers				
U.K. Regulated	$515	$552	$1,673	$1,836
Kentucky Regulated	835	801	2,382	2,414
Pennsylvania Regulated	539	519	1,619	1,625
Corporate and Other	—	6	11	14
Total	$1,889	$1,878	$5,685	$5,889
Net Income				
U.K. Regulated (a)	$281	$249	$915	$814
Kentucky Regulated	126	111	314	267
Pennsylvania Regulated	91	55	263	191
Corporate and Other (b)	(25)	(19)	(55)	(74)
Discontinued Operations (c)	—	(3)	—	(915)
Total	$473	$393	$1,437	$283

	September 30, 2016	December 31, 2015
Balance Sheet Data		
Assets		
U.K. Regulated (d)	$ 15,014	$ 16,669
Kentucky Regulated	13,853	13,756
Pennsylvania Regulated	9,070	8,511
Corporate and Other (e)	101	365
Total assets	$ 38,038	$ 39,301

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 14 for additional information.
(b) The nine months ended September 30, 2015 includes transition costs to prepare the Talen Energy organization for the June 1, 2015 spinoff and reconfigure the remaining PPL Services functions. See Note 8 for additional information.
(c) See Note 8 for additional information.
(d) Includes $11.1 billion and $12.2 billion of net PP&E as of September 30, 2016 and December 31, 2015. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
(e) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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.

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:

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	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
Income (Numerator)				
Income from continuing operations after income taxes	$473	$ 396	$1,437	$1,198
Less amounts allocated to participating securities	1	2	4	5
Income from continuing operations after income taxes available to PPL common shareowners - Basic and Diluted	$472	$ 394	$1,433	$1,193
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	$—	$ (3)	$—	$(915)
Net income	$473	$ 393	$1,437	$283
Less amounts allocated to participating securities	1	2	4	1
Net income available to PPL common shareowners - Basic and Diluted	$472	$ 391	$1,433	$282
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	678,114	670,763	676,905	668,731
Add incremental non-participating securities:				
Share-based payment awards	2,234	2,939	3,064	2,523
Weighted-average shares - Diluted EPS	680,348	673,702	679,969	671,254
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$0.70	$ 0.59	$2.12	$1.78
Income (loss) from discontinued operations (net of income taxes)	—	(0.01)	—	(1.36)
Net Income	$0.70	$ 0.58	$2.12	$0.42
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$0.69	$ 0.59	$2.11	$1.78
Income (loss) from discontinued operations (net of income taxes)	—	(0.01)	—	(1.36)
Net Income	$0.69	$ 0.58	$2.11	$0.42

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 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
Stock-based compensation plans (a)	248	1,368	3,168	3,805
DRIP	761	475	1,533	1,318

(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	
	2016	2015	2016	2015
Stock options	696	1,484	696	1,218
Performance units	316	—	210	49

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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	
	2016	2015	2016	2015
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$214	$189	$681	$571
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	13	15	37	44
Valuation allowance adjustments	4	—	13	8
Impact of lower U.K. income tax rates	(37)	(40)	(136)	(138)
Federal and state tax reserve adjustments (a)	—	(9)	—	(21)
Enactment of the U.K. Finance Act 2016 (b)	(42)	—	(42)	—
Depreciation not normalized	—	—	(6)	(4)
Interest benefit on U.K. financing entities	(4)	(4)	(13)	(15)
Stock-based compensation (c)	(1)	—	(12)	—
Other	(8)	(7)	(12)	(13)
Total increase (decrease)	(75)	(45)	(171)	(139)
Total income taxes	$139	$144	$510	$432

(a) During the three and nine months ended September 30, 2015, PPL recorded a $9 million tax benefit related to a planned amendment of a prior period tax return.

During the nine months ended September 30, 2015, PPL recorded a $12 million tax benefit to adjust the settled refund amount approved by the Joint Committee on Taxation for the open audit years 1998 - 2011.

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

(c) During the three and nine months ended September 30, 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

(PPL Electric)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$52	$32	$149	$112
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	7	27	21
Depreciation not normalized	(2)	(1)	(5)	(3)
Stock-based compensation (a)	—	—	(7)	—
Other	(1)	(3)	(2)	—
Total increase (decrease)	6	3	13	18
Total income taxes	$58	$35	$162	$130

(a)

During the nine months ended September 30, 2016, PPL Electric recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 2 for additional information.

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(LKE)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$74	$68	$189	$172
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	7	20	18
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Valuation allowance adjustments (a)	—	—	—	8
Stock-based compensation	(1)	—	(2)	—
Other	(1)	(1)	(3)	(2)
Total increase (decrease)	5	5	13	22
Total income taxes	$79	$73	$202	$194

(a) Represents a valuation allowance against tax credits expiring in 2016 and 2017 that are more likely than not to expire before being utilized.

(LG&E)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$36	$33	$90	$83
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	4	10	9
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	3	3	8	8
Total income taxes	$39	$36	$98	$91

(KU)

	Three Months		Nine Months	
	2016	2015	2016	2015
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$44	$41	$117	$106
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	4	12	11
Other	(1)	(1)	(1)	(2)
Total increase (decrease)	4	3	11	9
Total income taxes	$48	$44	$128	$115

Other (PPL)

In February 2015, PPL and the IRS Appeals Division reached a settlement on the amount of PPL's refund from its open audits for the years 1998 - 2011. In April 2015, PPL was notified that the Joint Committee on Taxation approved PPL's settlement. For the nine months ended September 30, 2015, PPL recorded a tax benefit of $24 million. Of this amount, $12 million was reflected in continuing operations. PPL finalized the settlement of interest in the second quarter of 2016 and recorded an additional $3 million tax benefit.

6. 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	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current Regulatory Assets:				
Environmental cost recovery	$4	$ 24	$—	$ —
Generation formula rate	12	7	—	—
Transmission service charge	8	10	8	10
Other	6	7	4	3
Total current regulatory assets (a)	$30	$ 48	$12	$ 13
Noncurrent Regulatory Assets:				
Defined benefit plans	$791	$ 809	$456	$ 469
Taxes recoverable through future rates	333	326	333	326
Storm costs	71	93	19	30
Unamortized loss on debt	62	68	39	42
Interest rate swaps	143	141	—	—
Accumulated cost of removal of utility plant	143	137	143	137
AROs	208	143	—	—
Other	14	16	1	2
Total noncurrent regulatory assets	$1,765	$ 1,733	$991	$ 1,006

Current Regulatory Liabilities:				
Generation supply charge	$22	$41	$22	$41
Demand side management	6	8	—	—
Gas supply clause	—	6	—	—
Universal service rider	10	5	10	5
Transmission formula rate	25	48	25	48
Fuel adjustment clause	14	14	—	—
Act 129 compliance rider	22	—	22	—
Storm damage expense	13	16	13	16
Other	8	7	2	3
Total current regulatory liabilities	$120	$145	$94	$113
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$698	$691	$—	$—
Coal contracts (b)	3	17	—	—
Power purchase agreement - OVEC (b)	77	83	—	—
Net deferred tax assets	23	23	—	—
Act 129 compliance rider	—	22	—	22
Defined benefit plans	27	24	—	—
Interest rate swaps	80	82	—	—
Other	3	3	—	—
Total noncurrent regulatory liabilities	$911	$945	$—	$22

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	LKE		LG&E		KU	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current Regulatory Assets:						
Environmental cost recovery	$ 4	$ 24	$ 4	$ 13	$ —	$ 11
Generation formula rate	12	7	—	—	12	7
Other	2	4	2	3	—	1
Total current regulatory assets	$ 18	$ 35	$ 6	$ 16	$ 12	$ 19
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 335	$ 340	$ 211	$ 215	$ 124	$ 125
Storm costs	52	63	29	35	23	28
Unamortized loss on debt	23	26	16	17	7	9
Interest rate swaps	143	141	102	98	41	43
AROs	208	143	77	57	131	86
Plant retirement costs	4	6	—	—	4	6
Other	9	8	2	2	7	6
Total noncurrent regulatory assets	$ 774	$ 727	$ 437	$ 424	$ 337	$ 303
Current Regulatory Liabilities:						
Demand side management	$6	$8	$4	$4	$2	$4
Gas supply clause	—	6	—	6	—	—
Fuel adjustment clause	14	14	2	2	12	12
Other	6	4	1	1	5	3
Total current regulatory liabilities	$26	$32	$7	$13	$19	$19
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$698	$691	$306	$301	$392	$390
Coal contracts (b)	3	17	1	7	2	10
Power purchase agreement - OVEC (b)	77	83	53	57	24	26
Net deferred tax assets	23	23	23	23	—	—
Defined benefit plans	27	24	—	—	27	24
Interest rate swaps	80	82	40	41	40	41
Other	3	3	1	2	2	1
Total noncurrent regulatory liabilities	$911	$923	$424	$431	$487	$492

(a) These amounts are included in "Other current assets" on the Balance Sheets.

(b) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

U.K. Activities (PPL)

Ofgem Review of Line Loss Calculation

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. WPD began refunding its liability for over-recovery of line losses to customers on April 1, 2015, which will continue through

March 31, 2019. The liability at September 30, 2016 was $31 million.

Kentucky Activities

Rate Case Proceedings (PPL, LKE, LG&E and KU)

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On November 1, 2016, LG&E and KU announced that on November 23, 2016, they anticipate filing requests with the KPSC for increases in annual base electricity rates of approximately $103 million at KU and an increase in annual base electricity and gas rates of approximately $94 million and $14 million at LG&E. The proposed base rate increases to be requested are an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E and would become effective in July 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program. The applications are to be based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return-on-equity of 10.23%. LG&E and KU cannot predict the outcome of these proceedings.

CPCN and ECR Filings (PPL, LKE, LG&E and KU)

On August 8, 2016, the KPSC issued an order approving CPCNs and ECR rate treatment regarding environmental construction projects relating to the EPA's regulations addressing the handling of coal combustion by-products and MATS. The construction projects began in 2016 and are expected to continue through 2023. The KPSC order established a 9.8% authorized return on equity for these projects. Recovery of costs has commenced with bills rendered on and after August 31, 2016.

Gas Franchise (LKE and LG&E)

LG&E’s existing gas franchise agreement for the Louisville/Jefferson County service area expired on March 31, 2016. LG&E submitted a proposed bid for a new franchise agreement on June 9, 2016. On August 30, 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 shall revert to zero. On August 30, 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E, and further filed a KPSC complaint against LG&E relating to these issues. On October 19, 2016, the KPSC issued an order rejecting Louisville/Jefferson County's complaint and provided Louisville/Jefferson County 20 days to file an amended complaint. Until the KPSC issues orders in these proceedings, LG&E cannot predict the 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.

Pennsylvania Activities (PPL and PPL Electric)

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In January 2016, PPL Electric and the other parties to the case reached a settlement of all major issues and filed that settlement with the Administrative Law Judge. In June 2016, the PUC issued a final order approving PPL Electric's Phase III Plan as modified by the settlement, allowing PPL Electric to recover, through the Act 129 compliance rider, a maximum $313 million in program cost over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

PPL Electric has received PUC approval of its biannual DSP procurement plans for all prior periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. The parties to the proceeding reached a settlement on all but one issue and a partial settlement agreement and briefs on the open issue were submitted to the Administrative Law Judge (ALJ) in July 2016. In August 2016, the ALJ issued an initial decision, and certain parties filed exceptions and reply exceptions. In October 2016, the PUC issued an order approving the partial settlement agreement and adopting the initial decision with minor modifications.

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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, 2016					December 31, 2015	
	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	Jan 2021	£ 210	£ 153	£ —	£ 57	£133	£ —
WPD (South West)							
Syndicated Credit Facility	July 2021	245	100	—	145	—	—
WPD (East Midlands)							
Syndicated Credit Facility	July 2021	300	31	—	269	—	—
WPD (West Midlands)							
Syndicated Credit Facility	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities		40	—	4	36	—	4
Total U.K. Credit Facilities (a)		£ 1,095	£ 284	£ 4	£ 807	£133	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility	Jan 2021	$ 700	$ —	$ —	$ 700	$—	$ 151
Syndicated Credit Facility	Nov 2018	300	—	—	300	—	300
Bilateral Credit Facility	Mar 2017	150	—	17	133	—	20
Total PPL Capital Funding Credit Facilities		$ 1,150	$ —	$ 17	$ 1,133	$—	$ 471
PPL Electric							
Syndicated Credit Facility	Jan 2021	$ 400	$ —	$ 131	$ 269	$—	$ 1
LKE							
Syndicated Credit Facility (b)	Oct 2018	$ 75	$ —	$ —	$ 75	$75	$ —
LG&E							
Syndicated Credit Facility	Dec 2020	$ 500	$ —	$ 128	$ 372	$—	$ 142

KU							
Syndicated Credit Facility	Dec 2020	$ 400	$ —	$ 7	$ 393	$—	$ 48
Letter of Credit Facility	Oct 2017	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 205	$ 393	$—	$ 246

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(a) WPD plc's amounts borrowed at September 30, 2016 and December 31, 2015 were USD-denominated borrowings of $200 million for both periods, which bore interest at 1.35% and 1.83%. The unused capacity reflects the amount borrowed in GBP of £153 million as of the date borrowed. WPD (South West) amount borrowed at September 30, 2016 was a GBP-denominated borrowing which equated to $131 million and bore interest at 0.68%. WPD (East Midlands) amount borrowed at September 30, 2016 was a GBP-denominated borrowing which equated to $40 million and bore interest at 0.66%. At September 30, 2016, the unused capacity under the U.K. credit facilities was approximately $1.1 billion.

(b) LKE's interest rate on outstanding borrowings at December 31, 2015 was 1.68%.

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:

	September 30, 2016				December 31, 2015	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding		$ 1,000	$ —	$ 1,000	0.78%	$ 451
PPL Electric	0.74%	400	130	270		—
LG&E	0.73%	350	128	222	0.71%	142
KU	0.66%	350	7	343	0.72%	48
Total		$ 2,100	$ 265	$ 1,835		$ 641

(LKE)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In May 2016, PPL Capital Funding issued $650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of $645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new ten-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire $460 million principal amount of its 3.90% Senior Notes upon maturity.

In October 2016, WPD (East Midlands) issued an additional £40 million of its 2.671% Index-linked Senior Notes due 2043. WPD (East Midlands) received proceeds of £83 million, which equated to $101 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 indentures. The proceeds will be used for general corporate purposes.

(PPL and PPL Electric)

In March 2016, the LCIDA issued $116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and $108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at PPL Electric's option. The proceeds of the bonds were used to redeem $116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and $108 million of 4.75% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued $224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

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(PPL, LKE and LG&E)

In September 2016, the County of Trimble, Kentucky issued $125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) due 2044 on behalf of LG&E. The bonds were issued with a floating interest rate that initially will reset weekly. The method of determining the interest rate on the bonds may be converted from time to time at LG&E's option. The proceeds of the bonds were used to redeem $83 million of Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2030 and $42 million of Pollution Control Revenue Refunding Bonds, 2002 Series A (Louisville Gas and Electric Company Project) due 2032 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

(PPL, LKE and KU)

In August 2016, the County of Carroll, Kentucky issued $96 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) due 2042 on behalf of KU. The bonds were issued bearing interest at an initial term rate of 1.05% through their mandatory purchase date of September 1, 2019. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at KU's option. The proceeds of the bonds were used to redeem $96 million of Pollution Control Revenue Refunding Bonds, 2002 Series C (Kentucky Utilities Company Project) due 2032 previously issued by the County of Carroll, Kentucky on behalf of KU.

(PPL)

ATM Program

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

	Three Months		Nine Months	
	2016	2015	2016	2015
Number of shares (in thousands)	710	436	710	858
Average share price	$35.23	$32.95	$35.23	$33.33
Net Proceeds	$25	$14	$25	$28

Distributions

In August 2016, PPL declared a quarterly common stock dividend, payable October 3, 2016, of 38 cents per share (equivalent to $1.52 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 in the Registrants' 2015 Form 10-K for additional information.

(PPL)

Discontinued Operations

Spinoff of PPL Energy Supply

In June 2015, PPL completed the spinoff of PPL Energy Supply, which combined its competitive power generation businesses with those of Riverstone to form a new, stand-alone, publicly traded company named Talen Energy.

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Following completion of the spinoff, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply). See Note 8 in PPL's 2015 Form 10-K for additional information.

Loss on Spinoff

In June 2015, in conjunction with the accounting for the spinoff, PPL evaluated whether the fair value of the Supply segment's net assets was less than the carrying value as of the June 1, 2015 spinoff date.

PPL considered several valuation methodologies to derive a fair value estimate of its Supply segment at the spinoff date. These methodologies included considering the closing "when-issued" Talen Energy market value on June 1, 2015 (the spinoff date), adjusted for the proportional share of the equity value attributable to the Supply segment, as well as, the valuation methods consistently used in PPL's goodwill impairment assessments - an income approach using a discounted cash flow analysis of the Supply segment and an alternative market approach considering market multiples of comparable companies.

Although the Talen Energy market value approach utilized the most observable inputs of the three approaches, PPL considered certain limitations of the "when-issued" trading market for the spinoff transaction including the short trading duration, lack of liquidity in the market and anticipated initial Talen stock ownership base selling pressure, among other factors, and concluded that these factors limited this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

Approach	Weighting	Weighted Fair Value (in billions)
Talen Energy Market Value	50%	$ 1.4
Income/Discounted Cash Flow	30%	1.1
Alternative Market (Comparable Company)	20%	0.7
Estimated Fair Value		$ 3.2

A key assumption included in the fair value estimate is the application of a control premium of 25% in the two market approaches. PPL concluded it was appropriate to apply a control premium in these approaches as the goodwill impairment testing guidance was followed in determining the estimated fair value of the Supply segment which had historically been a reporting unit for PPL. This guidance provides that the market price of an individual security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit. This guidance also indicates that substantial value may arise to a controlling shareholder from the ability to take advantage of synergies and other benefits that arise from control over another entity, and that the market price of a company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

In determining the control premium, PPL reviewed premiums received during the prior five years in market sales transactions obtained from observable independent power producer and hybrid utility transactions greater than $1 billion. Premiums for these transactions ranged from 5% to 42% with a median of approximately 25%. Given these metrics, PPL concluded a control premium of 25% to be reasonable for both of the market valuation approaches used.

Assumptions used in the discounted cash flow analysis included forward energy prices, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the Energy Supply portion of the Talen Energy business planning process at that time and a market participant discount rate.

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Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (classified as Level 3) was below its carrying value of $4.1 billion and recorded a loss on the spinoff of $879 million in the second quarter of 2015, which is reflected in discontinued operations and is nondeductible for tax purposes. This amount served to reduce the basis of the net assets accounted for as a dividend at the June 1, 2015 spinoff date.

Costs of Spinoff

Employee-related costs incurred in the nine months ended September 30, 2015 primarily included accelerated stock-based compensation and pro-rated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized $24 million of these costs at the spinoff closing date, which are reflected in discontinued operations.

PPL also recorded $44 million of third-party costs related to this transaction during the nine months ended September 30, 2015. Of these costs, $31 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $13 million of consulting and other costs were incurred to prepare the new Talen Energy organization for the spinoff and reconfigure the remaining PPL service functions. These costs are primarily recorded in "Other operation and maintenance" on the Statement of Income.

At the close of the transaction, $72 million ($42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into earnings and are reflected in discontinued operations for the nine months ended September 30, 2015.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years after the spinoff. Pursuant to the TSA, PPL is providing Talen Energy certain information technology, financial and accounting, human resource and other specified services. For the three and nine months ended September 30, 2016, the amounts PPL billed Talen Energy for these services were $9 million and $29 million. For the three and nine months ended September 30, 2015, the amounts PPL billed Talen Energy for these services were $11 million and $14 million. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff. PPL Electric's supply contracts with Talen Energy Marketing extend through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

For the three and nine months ended September 30, 2016, PPL Electric's energy purchases from Talen Energy Marketing were $15 million and $98 million. For the three and nine months ended September 30, 2015, PPL Electric's energy purchases from Talen Energy Marketing were not significant. These energy purchases are no longer considered affiliate transactions.

Summarized Results of Discontinued Operations (PPL)

The operations of the Supply segment prior to the spinoff on June 1, 2015 are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statement of Income for the periods ended September 30, 2015:

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	Three Months	Nine Months
Operating revenues	$ —	$ 1,427
Operating expenses	—	1,328
Other Income (Expense) - net	—	(22)
Interest expense (a)	—	150
Income (loss) before income taxes	—	(73)
Income tax expense (benefit)	3	(37)
Loss on spinoff	—	(879)
Income (Loss) from Discontinued Operations (net of income taxes)	$ (3)	$ (915)

(a) Includes interest associated with the Supply segment with no additional allocation as the Supply segment was sufficiently capitalized.

Development

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile, 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress costs but denied the requested incentive for a 100 basis point adder to the return on equity.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a final order approving the application. The line was energized in April 2016, completing the approximately $350 million project which includes additional substation security enhancements. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

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 September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2016	2015	2016 (a)	2015	2016	2015	2016 (a)	2015
PPL								
Service cost	$ 16	$ 20	$ 17	$ 21	$ 49	$ 76	$ 53	$ 60
Interest cost	44	42	58	80	131	152	182	236
Expected return on plan assets	(57)	(56)	(124)	(133)	(171)	(201)	(389)	(393)

Amortization of:								
Prior service cost	2	1	—	—	6	5	—	—
Actuarial loss	12	18	34	39	37	65	107	118
Net periodic defined benefit costs (credits) before settlements	17	25	(15)	7	52	97	(47)	21
Settlements	3	—	—	—	3	—	—	—
Net periodic defined benefit costs (credits) (b)	$20	$25	$(15)	$7	$55	$97	$(47)	$21

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	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2016	2015	2016 (a)	2015	2016	2015	2016 (a)	2015
LKE								
Service cost	$6	$7			$18	$20		
Interest cost	18	17			53	51		
Expected return on plan assets	(23)	(22)			(68)	(66)		
Amortization of:								
Prior service cost	2	1			6	5		
Actuarial loss	5	9			15	26		
Net periodic defined benefit costs	$8	$12			$24	$36		
LG&E								
Service cost	$—	$—			$1	$1		
Interest cost	4	3			11	10		
Expected return on plan assets	(5)	(5)			(15)	(15)		
Amortization of:								
Prior service cost	1	1			3	2		
Actuarial loss	2	3			5	9		
Net periodic defined benefit costs	$2	$2			$5	$7		

(a) See Note 2 for a discussion of changes to the discount rate used for the U.K. Pension Plans.

(b) For the nine months ended September 30, 2015, the total net periodic defined benefit cost includes $18 million reflected in discontinued operations related to costs allocated from PPL's plans to PPL Energy Supply prior to the spinoff.

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2016	2015	2016	2015
PPL				
Service cost	$2	$ 2	$6	$ 9
Interest cost	6	6	19	20
Expected return on plan assets	(6)	(6)	(17)	(20)
Amortization of actuarial loss	1	—	1	—
Net periodic defined benefit costs	$3	$ 2	$9	$ 9
LKE				
Service cost	$1	$ 1	$3	$ 4
Interest cost	2	2	7	7
Expected return on plan assets	(2)	(1)	(5)	(4)
Amortization of prior service cost	1	1	2	2
Net periodic defined benefit costs	$2	$ 3	$7	$ 9

(PPL Electric, LG&E and KU)

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

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	Three Months		Nine Months	
	2016	2015	2016	2015
PPL Electric	$ 6	$ 8	$ 17	$ 24
LG&E	2	3	7	10
KU	2	4	8	13

Cash Flows - U.S. Pension Plans

(PPL & LKE)

During the nine months ended September 30, 2016, LKE contributed $66 million to its pension plans. LKE does not anticipate making any additional significant contributions to these plans in 2016.

(PPL, LKE and LG&E)

During the nine months ended September 30, 2016, LG&E contributed $35 million to its pension plan. LG&E does not anticipate making any additional contributions to the plan in 2016.

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.

WKE Indemnification (PPL and LKE)

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

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

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs seek compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. Upon motion of LG&E and PPL, the district court certified for appellate review the issue of whether the state common law claims are preempted by federal statute. In December 2014, the U.S. Court of Appeals for the Sixth Circuit issued an order granting appellate review regarding the above matter. Oral argument before the Sixth Circuit was held in August 2015. In November 2015, the

Sixth Circuit issued an opinion affirming the District Court's ruling that plaintiffs' state law claims are not preempted by the Clean Air Act and remanding the matter to the District Court for further proceedings. The District Court has issued an order setting a discovery schedule through the second quarter of 2017. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

Mill Creek Environmental Claims (PPL, LKE and LG&E)

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleged that various discharges at the Mill Creek plant constituted violations of the plant's water discharge permit. The Sierra Club sought civil penalties, injunctive relief, costs and attorney's fees. The parties reached a proposed settlement in the matter on September 27, 2016, which has been submitted to the court. LG&E has agreed to limited alterations to outfall facilities and discharge practices and to fund $1 million in environmental enhancement projects focused on tree planting and water quality in Kentucky. The settlement includes no finding or agreement of any violation of law by LG&E and does not involve fines or civil penalties. The U.S. Department of Justice has 45 days to review the settlement before the court can approve. PPL, LKE and LG&E cannot predict the ultimate outcome of this matter, but do not presently expect the matter to have a material effect on plant operation, capital expenditures or operating costs, or to result in significant charges beyond the amounts previously recorded.

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

In October 2015, KU received a notice of intent from Earthjustice and the Sierra Club informing certain federal and state agencies of the Sierra Club's intent to file a citizen suit, following expiration of the mandatory 60-day notification period, for alleged violations of the Clean Water Act. The claimants allege discharges at the E.W. Brown plant in violation of applicable rules and the plant's water discharge permit. The claimants assert that, unless the alleged discharges are promptly brought into compliance, it intends to seek civil penalties, injunctive relief and attorney's fees. In November 2015, the claimants submitted an amended notice of intent to add the Kentucky Waterways Alliance as a claimant. On October 26, 2016, the claimants submitted an additional notice of intent alleging management of waste in a manner that may present an imminent and substantial endangerment under the RCRA. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E. W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Air Permit

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the Trimble County Unit 2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which, in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. On February 10, 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held on September 14, 2016. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Regulatory Issues (All Registrants)

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

Electricity - Reliability Standards

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

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

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

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

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules.

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

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

Air

(PPL, LKE, LG&E and KU)

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

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

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

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a

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new ozone standard on October 1, 2015. The states and EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, are working together to evaluate further nitrogen oxide reductions from fossil-fueled plants with SCRs. The nature and timing of any additional reductions resulting from these evaluations cannot be predicted at this time.

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

Mercury and Air Toxics Standards (MATS)

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. The MATS rule was challenged by industry groups and states and was upheld by the U.S. Court of Appeals for the D. C. Circuit Court (D.C. Circuit Court) in April 2014. A group of states subsequently petitioned the U.S. Supreme Court (Supreme Court) to review this decision and, in June 2015, the Supreme Court held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The Supreme Court remanded the matter to the D.C. Circuit Court, which in December 2015 remanded the rule to the EPA without vacating it. The EPA has proposed a supplemental finding regarding costs of the rule and has announced that it intends to make a final determination in 2016. The EPA's MATS rule remains in effect during the pendency of the ongoing proceedings.

LG&E and KU have installed significant controls in response to the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded Scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU have received KPSC approval for a compliance plan providing for installation of additional MATS-related controls; however, the estimated cost of these controls is not expected to be significant for either LG&E or KU. PPL, LKE, LG&E and KU cannot predict the outcome of the MATS rule or its potential impact, if any, on plant operations, rate treatment or future capital or operating needs. See Note 6 for additional information.

New Source Review (NSR)

The NSR litigation brought by the EPA, states and environmental groups against coal-fired generating plants in past years continues to proceed through the courts. Although none of this litigation directly involves PPL, LKE, LG&E or KU, it can influence the permitting of large capital projects at LG&E's and KU's power plants, the costs of which cannot presently be determined but could be significant.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, the President announced that the United States, Canada and Mexico have 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 greenhouse gas (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 EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025.

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The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses. WPD expects these expenses to decrease as a result of energy efficiency measures and the removal of 18 fuel sources previously included in the allowance requirements.

The EPA's Rules under Section 111 of the Clean Air Act

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants in the United States. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. On February 9, 2016, the Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the Supreme Court if a writ of certiorari is filed and granted.

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

The EPA's Clean Power Plan

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan is ultimately upheld and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA would impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are participating in the ongoing regulatory processes at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. A ruling from the D.C. Circuit Court may occur in late 2016 or in early 2017. PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

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

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

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

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, the EPA will regulate CCRs as non-hazardous under Subtitle D of RCRA and allow beneficial use of CCRs, 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. This self-implementing rule requires posting of compliance documentation on a publicly accessible website and is enforceable solely through citizen suits. LG&E and KU are also subject to state rules applicable to CCR management which may potentially be modified to reflect some or all requirements of the federal rule. 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.

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

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015 and 2016. See Note 16 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 by reducing capture in the screens attached to cooling water intake structures (impingement) at generating facilities and the water volume brought into the facilities (entrainment). The requirements could impose significant costs for LG&E and KU which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final effluent limitations guidelines for wastewater discharge permits for new and existing steam electricity generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. It has not been decided how Kentucky intends to integrate the ELGs into its routine permit renewal process. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule which have been consolidated before the United States Fifth Circuit Court of Appeals. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Clean Water Act Section 316(b)

The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. States are allowed broad discretion to make site-specific determinations under the rule. The rule requires existing facilities to choose between several options to reduce the impact to aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Plants equipped with closed-cycle cooling, an acceptable option, would likely not incur substantial costs. Once-through systems would likely require additional technology to comply with the rule. Based on studies conducted by LG&E and KU to date, all plants will incur only insignificant operational costs. In addition, LG&E's Mill Creek Unit 1 is expected to incur capital costs. PPL, LKE, LG&E and KU are evaluating compliance strategies but do not presently expect the compliance costs, which are subject to rate recovery, to be significant.

(All Registrants)

Waters of the United States (WOTUS)

The U.S. Court of Appeals for the Sixth Circuit has issued a stay of EPA's rule on the definition of WOTUS pending the court's review of the rule. The effect of the stay is that the WOTUS rule is not in effect anywhere in the United States. The ultimate outcome of the court's review of the rule remains uncertain. Because of the strict permitting programs already in place in Kentucky and Pennsylvania, the Registrants do not expect the rule to have a significant impact on their operations.

Other Issues

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxic Substance Control Act, which was significantly updated in June 2016. In 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. The rulemaking, which could lead to a phase-out in the United States of all or some equipment containing PCBs, is not likely to be affected by the revisions to the Toxic Substances Control Act. The EPA has postponed the release of revisions to its proposed rulemaking. The Registrants cannot predict at this time the outcome of the proposed EPA rulemaking and what impact, if any, it would have on their facilities, but the costs could be significant.

Superfund and Other Remediation (All Registrants)

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 significant to PPL Electric. Should the EPA require different or additional measures in the future, however, or should PPL Electric's share of costs at multi-party sites increase substantially more than expected, the costs could be significant.

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

PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. LG&E and KU lack information on the condition of such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these sites. At September 30, 2016 and December 31, 2015, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate additional sites previously owned or operated by PPL Electric predecessors or affiliates. 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, the costs of remediation and other liabilities could be significant and may be as much as approximately $30 million.

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

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

European Union Creosote Ban (PPL)

In 2011, the European Commission amended the European Union Biocides Directive to ban the use of creosote in contact with soil. Creosote is a wood preservative used to extend the life of wooden poles that support power lines. Although European Union member countries were required to pass implementing laws by 2012, the U.K. has not passed an implementing law and there are no legal penalties for failing to do so. The recent U.K. referendum in favor of the U.K.'s withdrawal from the European Union further reduces the likelihood that the U.K. will implement the European Union directive. In the unlikely event that the U.K. were to ban the use of creosote, WPD's creosote-treated wood poles would need to be replaced with an acceptable alternative at the time of routine replacement. Although the aggregate cost to replace poles could be significant, it would be incurred as poles are replaced in the ordinary course and would be subject to rate recovery. WPD has 1.4 million wood poles in its system. There are currently no alternative wood preservatives available that are acceptable to the industry and/or regulators.

Other

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 September 30, 2016. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2016, was $22 million for PPL and $17 million for LKE. The total recorded liability at December 31, 2015, was $25 million for PPL and $18 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 September 30, 2016		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 10	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	109	(c)	
PPL Electric			
Guarantee of inventory value	15	(d)	2018
LKE			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023
LG&E and KU			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

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

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

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

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2016, 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 fall outside the cap. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of $100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, a counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made and has disputed the demands. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum, and LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

(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 $124 million at September 30, 2016, consisting of LG&E's share of $86 million and KU's share of $38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" and "Guarantees and Other Assurances" in Note 13 in PPL's, LKE's, LG&E's and KU's 2015 Form 10-K for additional information on the OVEC power purchase contract.

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

	Three Months		Nine Months	
	2016	2015	2016	2015
PPL Electric from PPL Services	$ 33	$ 35	$ 98	$ 90
LKE from PPL Services	4	4	13	12
PPL Electric from PPL EU Services	17	12	50	44
LG&E from LKS	40	36	128	107
KU from LKS	46	43	151	127

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 LKE and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a $225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. At September 30, 2016 and December 31, 2015, $138 million and $54 million were outstanding and were reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowing at September 30, 2016 and December 31, 2015 were 2.02% and 1.74%.

LKE has a $400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2016 and December 31, 2015, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

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)

"Other Income (Expense) - net" for the three and nine months ended September 30, 2016 and 2015 consisted primarily of gains on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 14 for additional information on these derivatives.

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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 predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2016 and 2015, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2015 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:

	September 30, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								