

PPL Corp  
 Form 10-Q  
 May 02, 2019

Table of Contents

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934 for the quarterly period ended March 31, 2019.

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	61-0247570
--------	----------------------------	------------

Edgar Filing: PPL Corp - Form 10-Q

(Exact name of Registrant as specified in its charter)

(Kentucky and Virginia)

One Quality Street

Lexington, KY 40507-1462

(502) 627-2000

---

Table of Contents

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 every Interactive Data File required to be submitted 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 such files).

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

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

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

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

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

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

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

Kentucky Utilities Company

Yes      No  X

---

Table of Contents

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol:	Name of each exchange on which registered
Common Stock of PPL Corporation	PPL	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	PPL/67	New York Stock Exchange
2013 Series B due 2073	PPX	New York Stock Exchange

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, 721,742,302 shares outstanding at April 25, 2019.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 25, 2019.
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 April 25, 2019.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 25, 2019.

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

Table of Contents

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 MARCH 31, 2019

## Table of Contents

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

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

	Page
<u>GLOSSARY OF TERMS AND ABBREVIATIONS</u>	i
<u>FORWARD-LOOKING INFORMATION</u>	1
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
PPL Corporation and Subsidiaries	
<u>Condensed Consolidated Statements of Income</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Balance Sheets</u>	6
<u>Condensed Consolidated Statements of Equity</u>	8
PPL Electric Utilities Corporation and Subsidiaries	
<u>Condensed Consolidated Statements of Income</u>	10
<u>Condensed Consolidated Statements of Cash Flows</u>	11
<u>Condensed Consolidated Balance Sheets</u>	12
<u>Condensed Consolidated Statements of Equity</u>	14
LG&E and KU Energy LLC and Subsidiaries	
<u>Condensed Consolidated Statements of Income</u>	16
<u>Condensed Consolidated Statements of Cash Flows</u>	17
<u>Condensed Consolidated Balance Sheets</u>	18
<u>Condensed Consolidated Statements of Equity</u>	20

Louisville Gas and Electric Company	
<u>Condensed Statements of Income</u>	<u>22</u>
<u>Condensed Statements of Cash Flows</u>	<u>23</u>
<u>Condensed Balance Sheets</u>	<u>24</u>
<u>Condensed Statements of Equity</u>	<u>26</u>
Kentucky Utilities Company	
<u>Condensed Statements of Income</u>	<u>28</u>
<u>Condensed Statements of Cash Flows</u>	<u>29</u>
<u>Condensed Balance Sheets</u>	<u>30</u>
<u>Condensed Statements of Equity</u>	<u>32</u>

---

Table of Contents

Combined Notes to Condensed Financial Statements (Unaudited)	
<u>Index to Combined Notes to Condensed Financial Statements</u>	<u>33</u>
<u>1. Interim Financial Statements</u>	<u>33</u>
<u>2. Summary of Significant Accounting Policies</u>	<u>34</u>
<u>3. Segment and Related Information</u>	<u>35</u>
<u>4. Revenue from Contracts with Customers</u>	<u>36</u>
<u>5. Earnings Per Share</u>	<u>38</u>
<u>6. Income Taxes</u>	<u>39</u>
<u>7. Utility Rate Regulation</u>	<u>41</u>
<u>8. Financing Activities</u>	<u>45</u>
<u>9. Leases</u>	<u>47</u>
<u>10. Defined Benefits</u>	<u>49</u>
<u>11. Commitments and Contingencies</u>	<u>51</u>
<u>12. Related Party Transactions</u>	<u>61</u>
<u>13. Other Income (Expense) - net</u>	<u>63</u>
<u>14. Fair Value Measurements</u>	<u>63</u>
<u>15. Derivative Instruments and Hedging Activities</u>	<u>65</u>
<u>16. Asset Retirement Obligations</u>	<u>72</u>
<u>17. Accumulated Other Comprehensive Income (Loss)</u>	<u>73</u>
<u>18. New Accounting Guidance Pending Adoption</u>	<u>74</u>
Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations	
<u>Overview</u>	<u>75</u>
<u>Introduction</u>	<u>75</u>
<u>Business Strategy</u>	<u>77</u>
<u>Financial and Operational Developments</u>	<u>78</u>
<u>Results of Operations</u>	<u>81</u>
<u>PPL Corporation and Subsidiaries - Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins</u>	<u>82</u>



<u>PPL Electric</u>	
<u>Utilities</u>	
<u>Corporation and</u>	
<u>Subsidiaries -</u>	
<u>Statement of</u>	<u>91</u>
<u>Income Analysis,</u>	
<u>Earnings and</u>	
<u>Adjusted Gross</u>	
<u>Margins</u>	
<u>LG&amp;E and KU</u>	
<u>Energy LLC and</u>	
<u>Subsidiaries -</u>	
<u>Statement of</u>	<u>93</u>
<u>Income Analysis,</u>	
<u>Earnings and</u>	
<u>Adjusted Gross</u>	
<u>Margins</u>	
<u>Louisville Gas</u>	
<u>and Electric</u>	
<u>Company -</u>	
<u>Statement of</u>	<u>95</u>
<u>Income Analysis,</u>	
<u>Earnings and</u>	
<u>Adjusted Gross</u>	
<u>Margins</u>	
<u>Kentucky</u>	
<u>Utilities</u>	
<u>Company -</u>	
<u>Statement of</u>	<u>98</u>
<u>Income Analysis,</u>	
<u>Earnings and</u>	
<u>Adjusted Gross</u>	
<u>Margins</u>	
<u>Financial Condition</u>	<u>100</u>
<u>Liquidity and</u>	<u>100</u>
<u>Capital Resources</u>	
<u>Risk Management</u>	<u>105</u>
<u>Foreign Currency</u>	<u>107</u>
<u>Translation</u>	
<u>Related Party</u>	<u>108</u>
<u>Transactions</u>	
<u>Acquisitions,</u>	
<u>Development and</u>	<u>108</u>
<u>Divestitures</u>	
<u>Environmental</u>	<u>108</u>
<u>Matters</u>	
<u>New Accounting Guidance</u>	<u>109</u>
<u>Application of Critical</u>	<u>109</u>
<u>Accounting Policies</u>	
<u>Item 3. Quantitative and Qualitative</u>	<u>110</u>
<u>Disclosures About Market Risk</u>	

<u>Item 4. Controls and Procedures</u>	<u>110</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>110</u>
<u>Item 1A. Risk Factors</u>	<u>110</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>110</u>
<u>Item 6. Exhibits</u>	<u>110</u>
<u>SIGNATURES</u>	<u>113</u>
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	

---

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK.

---

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

Safari Energy - Safari Energy, LLC, an indirect subsidiary of PPL, acquired in June 2018, that provides solar energy solutions for commercial customers in the U.S.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

i

---

Table of Contents

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-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

2018 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2018.

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

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

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

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

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

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

AOI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

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

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

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

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

Table of Contents

DNO - Distribution Network Operator in the U.K.

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

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

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

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

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

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

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

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

EPS - earnings per share.

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

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

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

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

HB 487 - House Bill 487. Comprehensive Kentucky state tax legislation enacted in April 2018.

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



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

kWh - kilowatt hour, basic unit of electrical energy.

LIBOR - London Interbank Offered Rate.

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.

iii

---

Table of Contents

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

NERC - North American Electric Reliability Corporation.

New Source Review - a Clean Air Act program that requires industrial facilities to install updated pollution control equipment when they are built or when making a modification that increases emissions beyond certain allowable thresholds.

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

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and gas 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 recorded at cost. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) relative total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

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

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

PP&E - property, plant and equipment.

PPL EnergyPlus - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, 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 indirect parent company of PPL Montana, LLC.

PPL Montana - prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL Montana, LLC, an indirect subsidiary of PPL Energy Supply that generated electricity for wholesale sales in Montana and the Pacific Northwest.

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

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

RCRA - Resource Conservation and Recovery Act of 1976.

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

Table of Contents

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

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

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

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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

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

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

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

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

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

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

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, which as of December 6, 2016, became wholly owned by Riverstone.

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

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

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

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

v

---

Table of Contents

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

vi

---

Table of Contents

## 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 2018 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal or U.K. tax laws or regulations;
- the direct or indirect effects on PPL or its subsidiaries or business systems of cyber-based intrusion or the threat of cyberattacks;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- the amount of WPD's pension deficit funding recovered in revenues after March 31, 2021, following the next triennial pension review that began in March 2019;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;

- catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events or other similar occurrences;
- war, armed conflicts, terrorist attacks, or similar disruptive events;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;



Table of Contents

business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;  
collective labor bargaining negotiations; and  
the outcome of litigation against the Registrants and their subsidiaries.

Any 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.

Table of Contents

## 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 March 31,	
	2019	2018
Operating Revenues	\$2,079	\$2,126
Operating Expenses		
Operation		
Fuel	194	214
Energy purchases	250	241
Other operation and maintenance	490	468
Depreciation	284	269
Taxes, other than income	80	83
Total Operating Expenses	1,298	1,275
Operating Income	781	851
Other Income (Expense) - net	52	(43 )
Interest Expense	241	239
Income Before Income Taxes	592	569
Income Taxes	126	117
Net Income	\$466	\$452
Earnings Per Share of Common Stock:		
Net Income Available to PPL Common Shareowners:		
Basic	\$0.65	\$0.65
Diluted	\$0.64	\$0.65
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	721,023,694,514	
Diluted	729,953,695,322	

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



Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2019	2018
Net income	\$466	\$452
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of \$0, \$0	294	116
Qualifying derivatives, net of tax of \$4, \$4	(19 )	(20 )
Defined benefit plans:		
Net actuarial gain (loss), net of tax of \$1, \$0	(3 )	(1 )
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Qualifying derivatives, net of tax of (\$6), (\$2)	24	12
Defined benefit plans:		
Net actuarial (gain) loss, net of tax of (\$5), (\$9)	21	36
Total other comprehensive income	317	143
Comprehensive income	\$783	\$595

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

Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Cash Flows from Operating Activities		
Net income	\$466	\$452
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	284	269
Amortization	22	21
Defined benefit plans - (income)	(66 )	(50 )
Deferred income taxes and investment tax credits	89	59
Unrealized losses on derivatives, and other hedging activities	53	85
Stock-based compensation expense	14	15
Other	(3 )	(3 )
Change in current assets and current liabilities		
Accounts receivable	(57 )	(71 )
Accounts payable	(94 )	(36 )
Unbilled revenues	48	58
Fuel, materials and supplies	31	43
Prepayments	(86 )	(73 )
Regulatory assets and liabilities, net	(25 )	64
Accrued interest	48	39
Other current liabilities	(72 )	(120 )
Other	(21 )	6
Other operating activities		
Defined benefit plans - funding	(127 )	(150 )
Other assets	(20 )	(30 )
Other liabilities	(10 )	(12 )
Net cash provided by operating activities	474	566
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(729 )	(750 )
Purchase of investments	(55 )	—
Proceeds from the sale of investments	57	—
Other investing activities	5	(3 )
Net cash used in investing activities	(722 )	(753 )
Cash Flows from Financing Activities		
Issuance of long-term debt	—	144
Issuance of common stock	22	100
Payment of common stock dividends	(296 )	(273 )
Net increase in short-term debt	424	369
Other financing activities	(8 )	(9 )

Edgar Filing: PPL Corp - Form 10-Q

Net cash provided by financing activities	142	331
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	3	(2 )
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(103 )	142
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	643	511
Cash, Cash Equivalents and Restricted Cash at End of Period	\$540	\$653

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$322	\$313
Accrued expenditures for intangible assets at March 31,	\$64	\$65

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

Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 518	\$ 621
Accounts receivable (less reserve: 2019, \$61; 2018, \$56)		
Customer	749	663
Other	104	107
Unbilled revenues	456	496
Fuel, materials and supplies	274	303
Prepayments	157	70
Price risk management assets	109	109
Other current assets	62	63
Total Current Assets	2,429	2,432
Property, Plant and Equipment		
Regulated utility plant	40,752	39,734
Less: accumulated depreciation - regulated utility plant	7,532	7,310
Regulated utility plant, net	33,220	32,424
Non-regulated property, plant and equipment	357	355
Less: accumulated depreciation - non-regulated property, plant and equipment	104	101
Non-regulated property, plant and equipment, net	253	254
Construction work in progress	1,834	1,780
Property, Plant and Equipment, net	35,307	34,458
Other Noncurrent Assets		
Regulatory assets	1,666	1,673
Goodwill	3,260	3,162
Other intangibles	728	716
Pension benefit asset	715	535
Price risk management assets	172	228
Other noncurrent assets	290	192
Total Other Noncurrent Assets	6,831	6,506
Total Assets	\$ 44,567	\$ 43,396

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





Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,428	\$ 1,430
Long-term debt due within one year	202	530
Accounts payable	823	989
Taxes	112	110
Interest	332	278
Dividends	298	296
Customer deposits	260	257
Regulatory liabilities	100	122
Other current liabilities	506	551
Total Current Liabilities	4,061	4,563
Long-term Debt	21,114	20,069
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,941	2,796
Investment tax credits	125	126
Accrued pension obligations	718	771
Asset retirement obligations	267	264
Regulatory liabilities	2,700	2,714
Other deferred credits and noncurrent liabilities	469	436
Total Deferred Credits and Other Noncurrent Liabilities	7,220	7,107
Commitments and Contingent Liabilities (Notes 7 and 11)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	11,051	11,021
Earnings reinvested	4,761	4,593
Accumulated other comprehensive loss	(3,647 )	(3,964 )
Total Equity	12,172	11,657
Total Liabilities and Equity	\$ 44,567	\$ 43,396

(a) 1,560,000 shares authorized; 721,371 and 720,323 shares issued and outstanding at March 31, 2019 and December 31, 2018.

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

7

---

Table of Contents

## 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, 2018	720,323	\$ 7	\$ 11,021	\$ 4,593	\$ (3,964)	\$ 11,657
Common stock issued	1,048		32			32
Stock-based compensation			(2)			(2)
Net income				466		466
Dividends and dividend equivalents (b)				(298)		(298)
Other comprehensive income					317	317
March 31, 2019	721,371	\$ 7	\$ 11,051	\$ 4,761	\$ (3,647)	\$ 12,172
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	3,985		115			115
Stock-based compensation			(9)			(9)
Net income				452		452
Dividends and dividend equivalents (b)				(286)		(286)
Other comprehensive income					143	143
March 31, 2018	697,383	\$ 7	\$ 10,411	\$ 4,037	\$ (3,279)	\$ 11,176

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

(b) Dividends declared per share of common stock at March 31, 2019 and March 31, 2018: \$0.4125 and \$0.4100.

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

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK.

9

---

Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Operating Revenues	\$645	\$639
Operating Expenses		
Operation		
Energy purchases	171	161
Other operation and maintenance	150	133
Depreciation	95	85
Taxes, other than income	31	32
Total Operating Expenses	447	411
Operating Income	198	228
Other Income (Expense) - net	5	6
Interest Income from Affiliate	2	—
Interest Expense	42	37
Income Before Income Taxes	163	197
Income Taxes	42	49
Net Income (a)	\$121	\$148

(a) Net income equals comprehensive income.

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

Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
<b>Cash Flows from Operating Activities</b>		
Net income	\$121	\$148
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	95	85
Amortization	5	6
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	16	21
Other	(2 )	(5 )
Change in current assets and current liabilities		
Accounts receivable	(25 )	(30 )
Accounts payable	(5 )	(36 )
Unbilled revenues	13	16
Prepayments	(88 )	(69 )
Regulatory assets and liabilities, net	(15 )	5
Taxes payable	(2 )	4
Other	(12 )	(19 )
Other operating activities		
Defined benefit plans - funding	(21 )	(28 )
Other assets	2	(25 )
Other liabilities	(1 )	1
Net cash provided by operating activities	81	76
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(264 )	(245 )
Expenditures for intangible assets	—	(1 )
Net cash used in investing activities	(264 )	(246 )
<b>Cash Flows from Financing Activities</b>		
Payment of common stock dividends to parent	(120 )	(72 )
Net increase in short-term debt	60	213
Other financing activities	(1 )	—
Net cash provided by (used in) financing activities	(61 )	141
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(244 )	(29 )
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	269	51
Cash, Cash Equivalents and Restricted Cash at End of Period	\$25	\$22

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$142	\$147
---	-------	-------

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

11

---

Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 23	\$ 267
Accounts receivable (less reserve: 2019, \$30; 2018, \$27)		
Customer	320	264
Other	19	38
Accounts receivable from affiliates	11	11
Unbilled revenues	107	120
Materials and supplies	24	25
Prepayments	86	5
Regulatory assets	11	11
Other current assets	9	9
Total Current Assets	610	750
Property, Plant and Equipment		
Regulated utility plant	11,794	11,637
Less: accumulated depreciation - regulated utility plant	2,892	2,856
Regulated utility plant, net	8,902	8,781
Construction work in progress	609	586
Property, Plant and Equipment, net	9,511	9,367
Other Noncurrent Assets		
Regulatory assets	809	824
Intangibles	260	260
Other noncurrent assets	53	42
Total Other Noncurrent Assets	1,122	1,126
Total Assets	\$ 11,243	\$ 11,243

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



Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 60	\$ —
Accounts payable	373	418
Accounts payable to affiliates	48	25
Taxes	10	12
Interest	42	37
Regulatory liabilities	60	74
Other current liabilities	84	101
Total Current Liabilities	677	667
Long-term Debt	3,694	3,694
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,345	1,320
Accrued pension obligations	257	282
Regulatory liabilities	667	675
Other deferred credits and noncurrent liabilities	141	144
Total Deferred Credits and Other Noncurrent Liabilities	2,410	2,421
Commitments and Contingent Liabilities (Notes 7 and 11)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	3,158
Earnings reinvested	940	939
Total Equity	4,462	4,461
Total Liabilities and Equity	\$ 11,243	\$ 11,243

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2019 and December 31, 2018.

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

Table of Contents

## 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, 2018	66,368	\$ 364	\$ 3,158	\$ 939	\$4,461
Net income				121	121
Dividends declared on common stock				(120 )	(120 )
March 31, 2019	66,368	\$ 364	\$ 3,158	\$ 940	\$4,462
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$3,992
Net income				148	148
Dividends declared on common stock				(72 )	(72 )
March 31, 2018	66,368	\$ 364	\$ 2,729	\$ 975	\$4,068

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

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

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK.

15

---

Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Operating Revenues	\$845	\$872
Operating Expenses		
Operation		
Fuel	194	214
Energy purchases	79	80
Other operation and maintenance	214	205
Depreciation	123	117
Taxes, other than income	18	17
Total Operating Expenses	628	633
Operating Income	217	239
Other Income (Expense) - net	—	(3 )
Interest Expense	54	50
Interest Expense with Affiliate	7	5
Income Before Income Taxes	156	181
Income Taxes	32	39
Net Income (a)	\$124	\$142

(a) Net income approximates comprehensive income.

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

Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Cash Flows from Operating Activities		
Net income	\$124	\$142
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	123	117
Amortization	10	5
Defined benefit plans - expense	3	3
Deferred income taxes and investment tax credits	36	8
Other	(1 )	—
Change in current assets and current liabilities		
Accounts receivable	8	(5 )
Accounts payable	(33 )	10
Accounts payable to affiliates	7	2
Unbilled revenues	21	31
Fuel, materials and supplies	29	42
Regulatory assets and liabilities, net	(10 )	60
Taxes payable	(29 )	7
Accrued interest	42	42
Other	(15 )	(67 )
Other operating activities		
Defined benefit plans - funding	(21 )	(108 )
Expenditures for asset retirement obligations	(21 )	(9 )
Other assets	(2 )	(3 )
Other liabilities	(1 )	1
Net cash provided by operating activities	270	278
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(278 )	(294 )
Net cash used in investing activities	(278 )	(294 )
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	74	12
Issuance of long-term debt	—	100
Net decrease in short-term debt	(12 )	(29 )
Distributions to member	(56 )	(69 )
Other financing activities	—	(1 )
Net cash provided by financing activities	6	13
Net Decrease in Cash and Cash Equivalents	(2 )	(3 )
Cash and Cash Equivalents at Beginning of Period	24	30
Cash and Cash Equivalents at End of Period	\$22	\$27

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,	\$88	\$124
---	------	-------

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

17

---

Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	March 31, December 31,	
	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 22	\$ 24
Accounts receivable (less reserve: 2019, \$28; 2018, \$27)		
Customer	239	239
Other	60	63
Unbilled revenues	148	169
Fuel, materials and supplies	219	248
Prepayments	25	25
Regulatory assets	27	25
Total Current Assets	740	793
Property, Plant and Equipment		
Regulated utility plant	13,806	13,721
Less: accumulated depreciation - regulated utility plant	2,146	2,125
Regulated utility plant, net	11,660	11,596
Construction work in progress	1,046	1,018
Property, Plant and Equipment, net	12,706	12,614
Other Noncurrent Assets		
Regulatory assets	857	849
Goodwill	996	996
Other intangibles	75	78
Other noncurrent assets	136	82
Total Other Noncurrent Assets	2,064	2,005
Total Assets	\$ 15,510	\$ 15,412

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

Table of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	March 31, December 31,	
	2019	2018
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 69	\$ 514
Long-term debt due within one year	202	530
Notes payable with affiliates	187	113
Accounts payable	278	366
Accounts payable to affiliates	17	9
Customer deposits	63	61
Taxes	34	63
Price risk management liabilities	4	4
Regulatory liabilities	40	48
Interest	74	32
Asset retirement obligations	73	82
Other current liabilities	122	126
Total Current Liabilities	1,163	1,948
Long-term Debt		
Long-term debt	5,084	4,322
Long-term debt to affiliate	650	650
Total Long-term Debt	5,734	4,972
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	999	956
Investment tax credits	125	126
Price risk management liabilities	17	16
Accrued pension obligations	259	282
Asset retirement obligations	214	214
Regulatory liabilities	2,033	2,039
Other deferred credits and noncurrent liabilities	175	136
Total Deferred Credits and Other Noncurrent Liabilities	3,822	3,769
Commitments and Contingent Liabilities (Notes 7 and 11)		
Member's Equity	4,791	4,723
Total Liabilities and Equity	\$ 15,510	\$ 15,412

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





Table of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

LG&amp;E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Member's Equity
December 31, 2018	\$ 4,723
Net income	124
Distributions to member	(56 )
March 31, 2019	\$ 4,791
December 31, 2017	\$ 4,563
Net income	142
Distributions to member	(69 )
Other comprehensive income	1
March 31, 2018	\$ 4,637

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

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK.

21

---

Table of Contents

## CONDENSED STATEMENTS OF INCOME

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Operating Revenues		
Retail and wholesale	\$397	\$407
Electric revenue from affiliate	13	12
Total Operating Revenues	410	419
Operating Expenses		
Operation		
Fuel	78	79
Energy purchases	74	76
Energy purchases from affiliate	2	6
Other operation and maintenance	94	89
Depreciation	51	48
Taxes, other than income	9	9
Total Operating Expenses	308	307
Operating Income	102	112
Other Income (Expense) - net	—	(1 )
Interest Expense	21	18
Income Before Income Taxes	81	93
Income Taxes	17	21
Net Income (a)	\$64	\$72

(a) Net income equals comprehensive income.

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

Table of Contents

## CONDENSED STATEMENTS OF CASH FLOWS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Cash Flows from Operating Activities		
Net income	\$64	\$72
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	51	48
Amortization	7	4
Defined benefit plans - expense	—	1
Deferred income taxes and investment tax credits	13	7
Change in current assets and current liabilities		
Accounts receivable	3	2
Accounts receivable from affiliates	(4 )	(7 )
Accounts payable	(7 )	8
Accounts payable to affiliates	(3 )	(2 )
Unbilled revenues	13	16
Fuel, materials and supplies	32	36
Regulatory assets and liabilities, net	(8 )	28
Taxes payable	(12 )	(1 )
Accrued interest	13	13
Other	(1 )	(16 )
Other operating activities		
Defined benefit plans - funding	—	(55 )
Expenditures for asset retirement obligations	(4 )	(5 )
Other liabilities	—	(3 )
Net cash provided by operating activities	157	146
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(117)	(150)
Net cash used in investing activities	(117)	(150)
Cash Flows from Financing Activities		
Issuance of long-term debt	—	100
Net decrease in short-term debt	(10 )	(62 )
Payment of common stock dividends to parent	(30 )	(34 )
Other financing activities	(1 )	(1 )
Net cash provided by (used in) financing activities	(41 )	3
Net Decrease in Cash and Cash Equivalents	(1 )	(1 )
Cash and Cash Equivalents at Beginning of Period	10	15
Cash and Cash Equivalents at End of Period	\$9	\$14

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31, \$37 \$75

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

23

---

Table of Contents

## CONDENSED BALANCE SHEETS

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 10
Accounts receivable (less reserve: 2019, \$1; 2018, \$1)		
Customer	110	110
Other	37	30
Unbilled revenues	64	77
Accounts receivable from affiliates	28	24
Fuel, materials and supplies	95	127
Prepayments	12	12
Regulatory assets	22	21
Total Current Assets	377	411
Property, Plant and Equipment		
Regulated utility plant	5,861	5,816
Less: accumulated depreciation - regulated utility plant	777	741
Regulated utility plant, net	5,084	5,075
Construction work in progress	547	514
Property, Plant and Equipment, net	5,631	5,589
Other Noncurrent Assets		
Regulatory assets	435	431
Goodwill	389	389
Other intangibles	45	47
Other noncurrent assets	41	16
Total Other Noncurrent Assets	910	883
Total Assets	\$ 6,918	\$ 6,883

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

Table of Contents

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

	March 31, December 31,	
	2019	2018
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 69	\$ 279
Long-term debt due within one year	106	434
Accounts payable	152	172
Accounts payable to affiliates	23	26
Customer deposits	31	29
Taxes	14	26
Price risk management liabilities	4	4
Regulatory liabilities	10	17
Interest	24	11
Asset retirement obligations	24	23
Other current liabilities	42	39
Total Current Liabilities	499	1,060
Long-term Debt	1,903	1,375
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	644	628
Investment tax credits	34	34
Price risk management liabilities	17	16
Asset retirement obligations	85	80
Regulatory liabilities	911	915
Other deferred credits and noncurrent liabilities	104	88
Total Deferred Credits and Other Noncurrent Liabilities	1,795	1,761
Commitments and Contingent Liabilities (Notes 7 and 11)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,795	1,795
Earnings reinvested	502	468
Total Equity	2,721	2,687
Total Liabilities and Equity	\$ 6,918	\$ 6,883

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2019 and December 31, 2018.



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

Table of Contents

## 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, 2018	21,294	\$ 424	\$ 1,795	\$ 468	\$2,687
Net income				64	64
Cash dividends declared on common stock				(30 )	(30 )
March 31, 2019	21,294	\$ 424	\$ 1,795	\$ 502	\$2,721
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$2,527
Net income				72	72
Cash dividends declared on common stock				(34 )	(34 )
March 31, 2018	21,294	\$ 424	\$ 1,712	\$ 429	\$2,565

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

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

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK.

27

---

Table of Contents

## CONDENSED STATEMENTS OF INCOME

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019 2018	
Operating Revenues		
Retail and wholesale	\$448	\$465
Electric revenue from affiliate	2	6
Total Operating Revenues	450	471
Operating Expenses		
Operation		
Fuel	116	135
Energy purchases	5	4
Energy purchases from affiliate	13	12
Other operation and maintenance	108	105
Depreciation	72	68
Taxes, other than income	9	8
Total Operating Expenses	323	332
Operating Income	127	139
Other Income (Expense) - net	2	(3 )
Interest Expense	26	25
Income Before Income Taxes	103	111
Income Taxes	22	24
Net Income (a)	\$81	\$87

(a) Net income equals comprehensive income.

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

Table of Contents

## CONDENSED STATEMENTS OF CASH FLOWS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31, 2019	2018
Cash Flows from Operating Activities		
Net income	\$81	\$87
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	72	68
Amortization	3	1
Deferred income taxes and investment tax credits	15	1
Other	(1 )	—
Change in current assets and current liabilities		
Accounts receivable	7	(7 )
Accounts payable	(16 )	11
Accounts payable to affiliates	(1 )	—
Unbilled revenues	8	15
Fuel, materials and supplies	(3 )	6
Regulatory assets and liabilities, net	(2 )	32
Taxes payable	(3 )	14
Accrued interest	22	22
Other	9	(15 )
Other operating activities		
Defined benefit plans - funding	—	(47 )
Expenditures for asset retirement obligations	(17 )	(4 )
Other assets	(2 )	(3 )
Other liabilities	2	4
Net cash provided by operating activities	174	185
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(161)	(143)
Net cash used in investing activities	(161)	(143)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt	(2 )	33
Payment of common stock dividends to parent	(39 )	(79 )
Contributions from parent	28	—
Other financing activities	(1 )	—
Net cash used in financing activities	(14 )	(46 )
Net Decrease in Cash and Cash Equivalents	(1 )	(4 )
Cash and Cash Equivalents at Beginning of Period	14	15
Cash and Cash Equivalents at End of Period	\$13	\$11

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at March 31,                      \$51    \$48

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

Table of Contents

## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 13	\$ 14
Accounts receivable (less reserve: 2019, \$2; 2018, \$2)		
Customer	129	129
Other	22	34
Unbilled revenues	84	92
Fuel, materials and supplies	124	121
Prepayments	12	11
Regulatory assets	5	4
Total Current Assets	389	405
Property, Plant and Equipment		
Regulated utility plant	7,935	7,895
Less: accumulated depreciation - regulated utility plant	1,367	1,382
Regulated utility plant, net	6,568	6,513
Construction work in progress	497	503
Property, Plant and Equipment, net	7,065	7,016
Other Noncurrent Assets		
Regulatory assets	422	418
Goodwill	607	607
Other intangibles	30	31
Other noncurrent assets	96	63
Total Other Noncurrent Assets	1,155	1,119
Total Assets	\$ 8,609	\$ 8,540

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

Table of Contents

## CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, December 31,	
	2019	2018
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 235
Long-term debt due within one year	96	96
Accounts payable	113	171
Accounts payable to affiliates	52	53
Customer deposits	32	32
Taxes	21	24
Regulatory liabilities	30	31
Interest	38	16
Asset retirement obligations	49	59
Other current liabilities	49	35
Total Current Liabilities	480	752
Long-term Debt	2,458	2,225
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	755	735
Investment tax credits	91	92
Asset retirement obligations	129	134
Regulatory liabilities	1,122	1,124
Other deferred credits and noncurrent liabilities	62	36
Total Deferred Credits and Other Noncurrent Liabilities	2,159	2,121
Commitments and Contingent Liabilities (Notes 7 and 11)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,689	2,661
Earnings reinvested	515	473
Total Equity	3,512	3,442
Total Liabilities and Equity	\$ 8,609	\$ 8,540

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2019 and December 31, 2018.

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





Table of Contents

## CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2018	37,818	\$ 308	\$ 2,661	\$ 473	\$3,442
Capital contributions from parent			28		28
Net income				81	81
Cash dividends declared on common stock				(39 )	(39 )
March 31, 2019	37,818	\$ 308	\$ 2,689	\$ 515	\$3,512
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$3,357
Net income				87	87
Cash dividends declared on common stock				(79 )	(79 )
March 31, 2018	37,818	\$ 308	\$ 2,616	\$ 441	\$3,365

(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.

Table of Contents

## Combined Notes to Condensed Financial Statements (Unaudited)

## Index to Combined Notes to Condensed Financial Statements

The notes to the condensed financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Interim Financial Statements	x	x	x	x	x
2. Summary of Significant Accounting Policies	x	x	x	x	x
3. Segment and Related Information	x	x	x	x	x
4. Revenue from Contracts with Customers	x	x	x	x	x
5. Earnings Per Share	x				
6. Income Taxes	x	x	x	x	x
7. Utility Rate Regulation	x	x	x	x	x
8. Financing Activities	x	x	x	x	x
9. Leases	x	x	x	x	x
10. Defined Benefits	x	x	x	x	x
11. Commitments and Contingencies	x	x	x	x	x
12. Related Party Transactions		x	x	x	x
13. Other Income (Expense) - net	x				
14. Fair Value Measurements	x	x	x	x	x
15. Derivative Instruments and Hedging Activities	x	x	x	x	x
16. Asset Retirement Obligations	x		x	x	x
17. Accumulated Other Comprehensive Income (Loss)	x				
18. New Accounting Guidance Pending Adoption	x	x	x	x	x

## 1. Interim Financial Statements

(All Registrants)

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2018 is derived from that Registrant's 2018 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 2018 Form 10-K. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019

or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

Table of Contents

## 2. Summary of Significant Accounting Policies

(All Registrants)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2018 Form 10-K and should be read in conjunction with those disclosures.

Restricted Cash and Cash Equivalents (PPL and PPL Electric)

Reconciliation of Cash, Cash Equivalents and Restricted Cash

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

	PPL		PPL Electric	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$518	\$ 621	\$23	\$ 267
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	19	19	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$540	\$ 643	\$25	\$ 269

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

## New Accounting Guidance Adopted

(All Registrants)

## Accounting for Leases

Effective January 1, 2019, the Registrants adopted accounting guidance that requires lessees to recognize a right of use asset and lease liability for leases, unless determined to meet the definition of a short-term lease. For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases result in straight-line expense recognition. Currently, the Registrants only have operating leases.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and current revenue recognition guidance. Lessors classify leases as operating, direct financing, or sales-type.

In adopting this new guidance, the Registrants elected to use the following practical expedients:

- The Registrants did not re-assess the lease classifications or initial direct costs of existing leases. The Registrants also did not re-assess existing contracts for leases or lease classification.

Edgar Filing: PPL Corp - Form 10-Q

The Registrants did not evaluate land easements that were not previously accounted for as leases under this new guidance. New land easements are evaluated under this new guidance beginning January 1, 2019.

See Note 9 for the required disclosures resulting from the adoption of this guidance.

(PPL, LKE, LG&E & KU)

The following table shows the amounts recorded on the Balance Sheets as of January 1, 2019 as a result of the adoption of this guidance using a modified retrospective transition method with transition applied as of the beginning of the period of adoption:

	PPL	LKE	LG&E	KU
Right of Use Asset (a)	\$81	\$56	\$23	\$31
Lease Liability- Current (b)	23	18	9	9
Lease Liability- Noncurrent (c)	67	46	18	26

(a) Right of Use Assets are recorded in "Other noncurrent assets" on the Balance Sheets.

Table of Contents

(b) Current lease liabilities are recorded in "Other current liabilities" on the Balance Sheets.

(c) Noncurrent lease liabilities are recorded in "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(All Registrants)

### Improvements to Accounting for Hedging Activities

Effective January 1, 2019, the Registrants adopted accounting guidance, using a modified retrospective approach, which reduces complexity when applying hedge accounting as well as improving transparency of an entity's risk management activities. This guidance eliminates the separate measurement and reporting of hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also allows entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions.

See Note 15 for the additional disclosures of the income statement impacts of hedging activities required from the adoption of this standard. Disclosures related to ineffectiveness are no longer required. Other impacts of adopting this guidance were not material.

### 3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2018 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended March 31 are as follows:

	Three Months	
	2019	2018
Operating Revenues from external customers		
U.K. Regulated	\$583	\$615
Kentucky Regulated	845	872
Pennsylvania Regulated	645	639
Corporate and Other	6	—
Total	\$2,079	\$2,126
Net Income		
U.K. Regulated (a)	\$264	\$197
Kentucky Regulated	117	133
Pennsylvania Regulated	121	148
Corporate and Other	(36 )	(26 )
Total	\$466	\$452

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 15 for additional information.

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

	March 31, December 31,	
	2019	2018
Assets		
U.K. Regulated (a) (b)	\$ 17,753	\$ 16,700
Kentucky Regulated	15,176	15,078
Pennsylvania Regulated	11,260	11,257
Corporate and Other (c)	378	361
Total	\$ 44,567	\$ 43,396

(a) Includes \$13.1 billion and \$12.4 billion of net PP&E as of March 31, 2019 and December 31, 2018. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.



Table of Contents

- (b) Includes \$2.5 billion and \$2.4 billion of goodwill as of March 31, 2019 and December 31, 2018. The change is due to the effect of foreign currency exchange rates.
- (c) Primarily consists of unallocated items, including cash, PP&E, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.

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

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

#### 4. Revenue from Contracts with Customers

(All Registrants)

See Note 3 in PPL's 2018 Form 10-K for a discussion of the principal activities from which the Registrants and PPL's segments generate their revenues.

The following tables reconcile "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the periods ended March 31.

	Three Months 2019				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$2,079	\$ 645	\$845	\$410	\$450
Revenues derived from:					
Alternative revenue programs (b)	(6 )	(4 )	(2 )	(2 )	—
Other (c)	(10 )	(3 )	(4 )	(1 )	(3 )
Revenues from Contracts with Customers	\$2,063	\$ 638	\$839	\$407	\$447
	Three Months 2018				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$2,126	\$ 639	\$872	\$419	\$471
Revenues derived from:					
Alternative revenue programs (b)	32	2	30	14	16
Other (c)	(16 )	(4 )	(5 )	(1 )	(4 )
Revenues from Contracts with Customers	\$2,142	\$ 637	\$897	\$432	\$483

PPL includes \$583 million and \$615 million for the three months ended March 31, 2019 and 2018 of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 3 for additional information.

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

under-collections are shown as negative amounts.

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

As discussed in Note 2 in PPL's 2018 Form 10-K, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above.

The following tables show revenues from contracts with customers disaggregated by customer class for the periods ended March 31.

Table of Contents

	Three Months 2019				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$556	\$ —	\$—	\$ —	\$—
Residential	778	407	371	189	182
Commercial	319	95	224	121	103
Industrial	150	17	133	44	89
Other (b)	114	14	70	33	37
Wholesale - municipal	28	—	28	—	28
Wholesale - other (c)	13	—	13	20	8
Transmission	105	105	—	—	—
Revenues from Contracts with Customers	\$2,063	\$ 638	\$839	\$ 407	\$447

	Three Months 2018				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$584	\$ —	\$—	\$ —	\$—
Residential	804	408	396	197	199
Commercial	325	98	227	124	103
Industrial	155	13	142	44	98
Other (b)	105	13	68	31	37
Wholesale - municipal	30	—	30	—	30
Wholesale - other (c)	34	—	34	36	16
Transmission	105	105	—	—	—
Revenues from Contracts with Customers	\$2,142	\$ 637	\$897	\$ 432	\$483

(a) Represents customers of WPD.

(b) Primarily includes revenues from pole attachments, street lighting, other public authorities and other non-core businesses.

(c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

PPL Electric's revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$533 million and \$105 million for the three months ended March 31, 2019 and \$532 million and \$105 million for the three months ended March 31, 2018.

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

The following table shows the accounts receivable balances that were impaired for the periods ended March 31.

	2019	2018
PPL	\$ 9	\$ 10
PPL Electric	6	7
LKE	2	2

LG&E	1	1
KU	1	1

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

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities at December 31, 2018	\$42	\$ 23	\$ 9	\$ 5	\$ 4
Contract liabilities at March 31, 2019	37	14	7	4	3
Revenue recognized during the three months ended March 31, 2019 that was included in the contract liability balance at December 31, 2018	25	11	9	5	4

Table of Contents

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities at December 31, 2017	\$29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities at March 31, 2018	20	11	7	3	4
Revenue recognized during the three months ended March 31, 2018 that was included in the contract liability balance at December 31, 2017	17	8	8	4	4

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

At March 31, 2019, PPL had \$46 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$26 million within the next 12 months.

## 5. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below. In 2019, these securities also included the PPL common stock forward sale agreements entered into in May 2018. See Note 8 in PPL's 2018 Form 10-K for additional information on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds the forward sale price prescribed in the agreements.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	Three Months	
	2019	2018
Income (Numerator)		
Net income	\$466	\$ 452
Less amounts allocated to participating securities	—	1
Net income available to PPL common shareowners - Basic and Diluted	\$466	\$ 451
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	721,028	694,514
Add incremental non-participating securities:		
Share-based payment awards	1,023	808
Forward sale agreements	7,907	—
Weighted-average shares - Diluted EPS	729,958	695,322

Basic EPS

Edgar Filing: PPL Corp - Form 10-Q

Net Income available to PPL common shareowners	\$0.65	\$ 0.65
--	--------	---------

Diluted EPS

Net Income available to PPL common shareowners	\$0.64	\$ 0.65
--	--------	---------

38

---

Table of Contents

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months 2019	2018
Stock-based compensation plans (a)	590	476
DRIP	458	485

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

For the periods ended March 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months <del>2019</del> 2018
Stock options	—230
Restricted stock units	—20

## 6. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are as follows.  
(PPL)

	Three Months 2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$124	\$119
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	13	15
Valuation allowance adjustments	7	7
Impact of lower U.K. income tax rates	(8 )	(7 )
Amortization of excess deferred federal and state income taxes	(11 )	(10 )
Other	1	(7 )
Total increase (decrease)	2	(2 )
Total income taxes	\$126	\$117

	Three Months 2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$34	\$41
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	13	15
Amortization of excess deferred income taxes	(4 )	(5 )
Other	(1 )	(2 )
Total increase (decrease)	8	8
Total income taxes	\$42	\$49





Table of Contents

(LKE)

	Three Months	
	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$33	\$38
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit (a)	6	8
Amortization of excess deferred federal and state income taxes	(6 )	(5 )
Other	(1 )	(2 )
Total increase (decrease)	(1 )	1
Total income taxes	\$32	\$39

(a) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, which became law in April 2018 and is effective for taxable years beginning January 1, 2018.

(LG&amp;E)

	Three Months	
	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$17	\$20
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit (a)	3	4
Amortization of excess deferred federal and state income taxes	(3 )	(2 )
Other	—	(1 )
Total increase (decrease)	—	1
Total income taxes	\$17	\$21

(a) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, which became law in April 2018 and is effective for taxable years beginning January 1, 2018.

(KU)

	Three Months	
	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$22	\$23
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit (a)	4	5
Amortization of excess deferred federal and state income taxes	(3 )	(3 )
Other	(1 )	(1 )
Total increase (decrease)	—	1
Total income taxes	\$22	\$24

(a) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, which became law in April 2018 and is effective for taxable years beginning January 1, 2018.

Other

U.S. Tax Reform (All Registrants)

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant. PPL expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

Table of Contents

## 7. Utility Rate Regulation

(All Registrants)

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

	PPL		PPL Electric	
	March 31,	December 31,	March 31,	December 31,
	2019	2018	2019	2018
<b>Current Regulatory Assets:</b>				
Gas supply clause	\$12	\$ 12	\$—	\$ —
Smart meter rider	11	11	11	11
Plant outage costs	13	10	—	—
Other	2	3	—	—
Total current regulatory assets (a)	\$38	\$ 36	\$11	\$ 11
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$953	\$ 963	\$553	\$ 558
Taxes recoverable through future rates	—	3	—	3
Storm costs	51	56	20	22
Unamortized loss on debt	43	45	20	22
Interest rate swaps	21	20	—	—
Terminated interest rate swaps	85	87	—	—
Accumulated cost of removal of utility plant	200	200	200	200
AROs	288	273	—	—
Act 129 compliance rider	16	19	16	19
Other	9	7	—	—
Total noncurrent regulatory assets	\$1,666	\$ 1,673	\$809	\$ 824

Table of Contents

	PPL		PPL Electric			
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018		
<b>Current Regulatory Liabilities:</b>						
Generation supply charge	\$24	\$ 33	\$24	\$ 33		
Transmission service charge	7	3	7	3		
Environmental cost recovery	13	16	—	—		
Universal service rider	20	27	20	27		
Transmission formula rate	—	3	—	3		
TCJA customer refund	9	20	4	3		
Storm damage expense rider	4	5	4	5		
Generation formula rate	8	7	—	—		
Other	15	8	1	—		
Total current regulatory liabilities	\$100	\$ 122	\$60	\$ 74		
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$675	\$ 674	\$—	\$ —		
Power purchase agreement - OVEC	57	59	—	—		
Net deferred taxes	1,809	1,826	619	629		
Defined benefit plans	40	37	7	5		
Terminated interest rate swaps	70	72	—	—		
TCJA customer refund (b)	41	41	41	41		
Other	8	5	—	—		
Total noncurrent regulatory liabilities	\$2,700	\$ 2,714	\$667	\$ 675		
	LKE		LG&E		KU	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
<b>Current Regulatory Assets:</b>						
Plant outage costs	\$13	\$ 10	\$9	\$ 7	\$4	\$ 3
Gas supply clause	12	12	12	12	—	—
Other	2	3	1	2	1	1
Total current regulatory assets	\$27	\$ 25	\$22	\$ 21	\$5	\$ 4
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$400	\$ 405	\$245	\$ 249	\$155	\$ 156
Storm costs	31	34	18	20	13	14
Unamortized loss on debt	23	23	15	15	8	8
Interest rate swaps	21	20	21	20	—	—
Terminated interest rate swaps	85	87	50	51	35	36
AROs	288	273	84	75	204	198
Other	9	7	2	1	7	6
Total noncurrent regulatory assets	\$857	\$ 849	\$435	\$ 431	\$422	\$ 418

Table of Contents

	LKE		LG&E		KU	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
<b>Current Regulatory Liabilities:</b>						
Environmental cost recovery	\$13	\$ 16	\$5	\$ 6	\$8	\$ 10
TCJA customer refund	5	17	2	7	3	10
Generation formula rate	8	7	—	—	8	7
Other	14	8	3	4	11	4
Total current regulatory liabilities	\$40	\$ 48	\$10	\$ 17	\$30	\$ 31
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$675	\$ 674	\$278	\$ 279	\$397	395
Power purchase agreement - OVEC	57	59	40	41	17	18
Net deferred taxes	1,190	1,197	554	557	636	640
Defined benefit plans	33	32	—	—	33	32
Terminated interest rate swaps	70	72	35	36	35	36
Other	8	5	4	2	4	3
Total noncurrent regulatory liabilities	\$2,033	\$ 2,039	\$911	\$ 915	\$1,122	\$ 1,124

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

Relates to amounts owed to PPL Electric customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, for the period of January 1, 2018 through June 30, 2018 which is not yet reflected in

(b) distribution customer rates. The initial liability was recorded during the second quarter of 2018. The distribution method back to customers of this liability must be proposed to the PUC at the earlier of May 2021 or PPL Electric's next rate case.

## Regulatory Matters

## Kentucky Activities

(PPL, LKE, LG&E and KU)

## Rate Case Proceedings

On September 28, 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately \$112 million at KU and increases in annual base electricity and gas rates of approximately \$35 million and \$25 million at LG&E. LG&E's and KU's applications also sought to include changes associated with the TCJA and state tax reform in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when new base rates go into effect. The elimination of the TCJA bill credit mechanism will result in an estimated annual electricity revenue increase of approximately \$58 million at KU and increases in electricity and gas revenues of approximately \$40 million and \$12 million at LG&E. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%.

On March 1, 2019, LG&E and KU, along with substantially all intervening parties to the proceeding, filed stipulation and recommendation agreements (stipulations) with the KPSC resolving all material issues with the parties. In

addition to terminating the TCJA bill credit mechanism, the proposed stipulations provided for increases in annual revenue requirements associated with base electricity rates of approximately \$58 million at KU and increases in annual base electricity and gas rates of approximately \$4 million and \$20 million at LG&E, based on a return-on-equity of 9.725%.

On April 30, 2019, the KPSC issued orders ruling on open issues and approving the proposed stipulations filed in March 2019. The orders provide for increases in annual revenue requirements associated with base electricity rates of \$56 million at KU and increases associated with base electricity and gas rates of \$2 million and \$19 million at LG&E. With the termination of the TCJA bill credit mechanism, this represents annual revenue increases of \$187 million (\$114 million at KU and \$73 million at LG&E). The new base rates and all elements of the orders became effective on May 1, 2019.

Table of Contents

Federal Matters

FERC Transmission Rate Filing

(PPL, LKE, LG&E and KU)

In August 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky. The amounts at issue are generally waivers or credits granted to such customers for either LG&E and KU or MISO transmission charges incurred depending upon the direction of certain transmission service incurred by the municipalities. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. On March 21, 2019, the FERC issued an Order granting LG&E's and KU's request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which transition mechanism will be subject to FERC review and approval. LG&E and KU are currently evaluating the Order. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

(PPL and PPL Electric)

In April 2019, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing establishes the revenue requirement used to set rates that will take effect in June 2019.

Transmission Customer Complaint (PPL, LKE, LG&E and KU)

In September 2018, a transmission customer filed a complaint with the FERC against LG&E and KU alleging LG&E and KU have violated and continue to violate their obligations under an existing rate schedule to credit this customer for certain transmission charges from MISO. In October 2018, LG&E and KU filed an answer to the complaint arguing such MISO transmission transactions are not covered by the rate schedule, and the amounts in question are not eligible for credits. On February 21, 2019, the FERC issued an Order concluding that the MISO transmission charges in question did qualify for credits under the rate schedule, and required LG&E and KU to reimburse the customer for the eligible credits. The reimbursement was not significant and was completed by LG&E and KU in March 2019. LG&E and KU currently receive recovery for such credits through other rate mechanisms.

TCJA Impact on FERC Rates (All Registrants)

In November 2018, the FERC issued a Policy Statement stating that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also in November 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not

prescribe the mechanism companies should use to adjust their formula rates.

LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA and HB 487 related to their FERC-jurisdictional rates to be significant.

On February 28, 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Rules and Regulation of the FERC. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient accumulated deferred income taxes (ADIT) resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. On April 29, 2019, the FERC accepted the proposed revisions to the



Table of Contents

formula rate template, which will be effective June 1, 2019, as well as the proposed adjustments to accumulated deferred income taxes, effective January 1, 2018. The changes related to ADIT impacting the transmission formula rate revenues have not been significant since the new rate went into effect on June 1, 2018.

Other

## Purchase of Receivables Program

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three months ended March 31, 2019 and 2018, PPL Electric purchased \$348 million and \$376 million of accounts receivable from alternate suppliers.

## 8. Financing Activities

## Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and act as a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts listed in the borrowed column below are recorded as "Short-term debt" on the Balance Sheets, except for amounts borrowed under LG&E's Term Loan Facility which are recorded as "Long-term debt" on the March 31, 2019 Balance Sheet and as "Long-term debt due within one year" on the December 31, 2018 Balance Sheet. The following credit facilities were in place at:

		March 31, 2019			December 31, 2018	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed and Commercial Paper Issued
PPL						
U.K.						
WPD plc						
Syndicated Credit Facility (a)	Jan. 2023	£ 210	£ 151	£ —	£ 57	£157 £ —
WPD (South West)						
Syndicated Credit Facility	July 2021	245	—	—	245	— —
WPD (East Midlands)						
Syndicated Credit Facility (b)	July 2021	300	99	—	201	38 —

Edgar Filing: PPL Corp - Form 10-Q

WPD (West Midlands)							
Syndicated Credit Facility	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities		100	—	4	96	—	4
Total U.K. Credit Facilities (c)		£ 1,155	£ 250	£ 4	£ 899	£195	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility	Jan. 2024	\$ 1,450	\$ —	\$ 968	\$ 482	\$—	\$ 669
Bilateral Credit Facility	Mar. 2020	100	—	15	85	—	15
Total PPL Capital Funding Credit Facilities		\$ 1,550	\$ —	\$ 983	\$ 567	\$—	\$ 684

Table of Contents

	March 31, 2019				December 31, 2018			
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
<b>PPL Electric</b>								
Syndicated Credit Facility	Jan. 2024	\$ 650	\$ —	\$ 61	\$ 589	\$—	\$ 1	
<b>LG&amp;E</b>								
Syndicated Credit Facility	Jan. 2024	\$ 500	\$ —	\$ 269	\$ 231	\$—	\$ 279	
Term Loan Credit Facility (d)	Oct. 2019	200	200	—	—	200	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 269	\$ 231	\$200	\$ 279	
<b>KU</b>								
Syndicated Credit Facility	Jan. 2024	\$ 400	\$ —	\$ 233	\$ 167	\$—	\$ 235	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 431	\$ 167	\$—	\$ 433	

The amounts borrowed at March 31, 2019 and December 31, 2018 were USD-denominated borrowings of \$200 (a) million for both periods, which bore interest at 3.32% and 3.17%. The unused capacity reflects the amount borrowed in GBP of £153 million as of the date borrowed.

(b) The amounts borrowed at March 31, 2019 and December 31, 2018 were GBP-denominated borrowings which equated to \$131 million and \$48 million and bore interest at 1.13% and 1.12%.

(c) At March 31, 2019, the unused capacity under the U.K. credit facilities was \$1.2 billion.

(d) At March 31, 2019, amounts borrowed were reclassified to "Long-term debt" on the Balance Sheets as a result of the April 2019 long-term debt issuances discussed below.

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 are included in "Short-term debt" on the Balance Sheets, except for certain LG&E and KU issuances noted below, and are supported by the respective Registrant's credit facilities. The following commercial paper programs were in place at:

	March 31, 2019				December 31, 2018	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.88%	\$ 1,500	\$ 968	\$ 532	2.82%	\$ 669
PPL Electric	2.75%	650	60	590	—	—
LG&E (a)	2.75%	350	269	81	2.94%	279
KU (b)	2.75%	350	233	117	2.94%	235
Total		\$ 2,850	\$ 1,530	\$ 1,320		\$ 1,183

(a) At March 31, 2019, \$200 million of outstanding commercial paper issuances were reclassified to "Long-term debt" on the Balance Sheets as a result of the April 2019 long-term debt issuances discussed below.

(b) At March 31, 2019, outstanding commercial paper issuances were reclassified to "Long-term debt" on the Balance Sheets as a result of the April 2019 long-term debt issuances discussed below.

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

See Note 12 for discussion of intercompany borrowings.

Long-term Debt

(PPL, LKE and LG&E)

In April 2019, LG&E issued \$400 million of 4.25% First Mortgage Bonds due 2049. LG&E received proceeds of \$396 million, net of discounts and underwriting fees, which were used to repay commercial paper and LG&E's term loan.

46

---

Table of Contents

In April 2019, the County of Jefferson, Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.85% through their mandatory purchase date of April 1, 2021.

(PPL, LKE and KU)

In April 2019, KU reopened its 4.375% First Mortgage Bonds due 2045 and issued an additional \$300 million of this series. KU received proceeds of \$303 million, including premiums and underwriting fees, which were used to repay commercial paper and for other general corporate purposes.

(PPL)

Equity Securities

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the three months ended March 31, 2019.

Distributions

In February 2019, PPL declared a quarterly common stock dividend, payable April 1, 2019, of 41.25 cents per share (equivalent to \$1.65 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.

9. Leases

(All Registrants)

The Registrants determine whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether the Registrants have the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether the Registrants have the right to direct the use of the asset. Renewal options are included in the lease term if it is reasonably certain the Registrants will exercise those options. Periods for which the Registrants are reasonably certain not to exercise termination options are also included in the lease term. The Registrants have certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

LKE, LG&E and KU have entered into various operating leases primarily for office space, vehicles and railcars. The leases generally have fixed payments with expiration dates ranging from 2019 to 2025, some of which have options to extend the leases from one year to ten years and some have options to terminate at LKE's, LG&E's and KU's discretion. For leases that existed as of December 31, 2018, payments associated with renewal options are not included in the measurement of the lease liability and right of use (ROU) asset.

WPD and Safari Energy have entered into various operating leases primarily for office space, land easements and telecom assets. These leases generally have fixed payments with expiration dates ranging from 2019 through 2028, except for the land agreements which extend through 2116.

PPL Electric also has operating leases which do not have a significant impact to its operations.

#### Short-term Leases

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option to extend the initial term of the lease to greater than 12 months that the Registrants are reasonably certain to exercise. The Registrants have made an accounting policy election to not recognize the ROU asset and the lease liability arising from leases classified as short-term. Expenses related to short-term leases are included in the tables below.

Table of Contents

## Discount Rate

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Registrants are required to use their incremental borrowing rate, which is the rate the Registrants would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Registrants receive secured borrowing rates from financial institutions based on their applicable credit profiles. The Registrants use the secured rate which corresponds with the term of the applicable lease.

## Practical Expedients

See Note 2 for information on the adoption of the new lease guidance as well as the practical expedients the Registrants have elected as part of the transition.

(PPL, LKE, LG&E and KU)

## Lessee Transactions

The following table provides the components of lease cost for the Registrants' operating leases for the three months ended March 31, 2019.

	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	\$ 8	\$ 7	\$ 4	\$ 3
Short-term lease cost	1	—	—	—
Total lease cost	\$ 9	\$ 7	\$ 4	\$ 3

The following table provides other key information related to the Registrants' operating leases at March 31, 2019.

	PPL	LKE	LG&E	KU
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 8	\$ 7	\$ 4	\$ 3
Right-of-use asset obtained in exchange for new operating lease liabilities	4	4	1	3

The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of March 31, 2019.

	PPL	LKE	LG&E	KU
2019	\$23	\$19	\$8	\$11
2020	20	15	6	8
2021	14	11	4	6
2022	10	7	3	4
2023	7	6	3	3
2024	7	5	2	3
Thereafter	23	5	2	3
Total	\$104	\$68	\$28	\$38

Weighted-average discount rate	3.74 %	3.93%	3.8 %	4.01%
--------------------------------	--------	-------	-------	-------

Edgar Filing: PPL Corp - Form 10-Q

Weighted-average remaining lease term (in years)	9	5	5	4
Current lease liabilities (a)	\$21	\$16	\$7	\$9
Non-current lease liabilities (a)	64	43	18	24
Right-of-use assets (b)	76	51	20	29

Current lease liabilities are included in "Other Current Liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets. The difference (a) between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.

(b) Right-of-use assets are included in "Other noncurrent assets" on the Balance Sheets.



Table of Contents

At December 31, 2018, the total future minimum rental payments for all operating leases were estimated to be:

	PPL	LKE	LG&E	KU
2019	\$26	\$ 20	\$ 10	\$10
2020	21	15	6	9
2021	15	11	4	7
2022	13	7	3	4
2023	8	6	3	3
Thereafter <sup>33</sup>	11	4		6
Total	\$116	\$ 70	\$ 30	\$39

## Lessor Transactions

Third parties lease land from LKE, LG&E and KU at certain generation plants to produce refined coal used in generation of electricity. The leases are operating leases and expire in 2021. Payments are allocated among lease and non-lease components as stated in the agreements. Lease payments are fixed or are determined based on the amount of refined coal used in electricity generation at the facility. Payments received are primarily recorded as a regulatory liability and are amortized in accordance with regulatory approvals.

WPD leases property and telecom assets to third parties, which generally expire through 2029. These leases are operating leases. Generally, lease payments are fixed and include only a lease component.

At March 31, 2019, PPL, LKE and KU expect to receive the following lease payments over the remaining term of their operating lease agreements:

	PPL	LKE	KU
2019	\$ 11	\$ 6	\$ 6
2020	13	7	7
2021	10	5	5
2022	4	—	—
2023	4	1	—
2024	4	—	—
Thereafter	12	—	—
Total	\$ 58	\$ 19	\$ 18

Lease income recognized for the three months ended March 31, 2019	\$ 4	\$ 2	\$ 2
---	------	------	------

## 10. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE, and LG&E for the periods ended March 31:

49

---

Table of Contents

	Pension Benefits Three Months			
	U.S.		U.K.	
	2019	2018	2019	2018
<b>PPL</b>				
Service cost	\$13	\$16	\$17	\$21
Interest cost	41	39	47	47
Expected return on plan assets	(61 )	(62 )	(148 )	(150 )
Amortization of:				
Prior service cost	2	2	—	—
Actuarial loss	13	22	24	39
Net periodic defined benefit costs (credits) before settlements	8	17	(60 )	(43 )
Settlements	1	—	—	—
Net periodic defined benefit costs (credits)	\$9	\$17	\$(60)	\$(43)
	Pension Benefits Three Months 20192018			
<b>LKE</b>				
Service cost	\$6	\$7		
Interest cost	16	16		
Expected return on plan assets	(25)	(26)		
Amortization of:				
Prior service cost	2	2		
Actuarial loss (a)	4	10		
Net periodic defined benefit costs	\$3	\$9		

As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with (a)LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$4 million for the three months ended March 31, 2018. This difference is recorded as a regulatory asset.

	Pension Benefits Three Months 20192018	
<b>LG&amp;E</b>		
Interest cost	3	3
Expected return on plan assets	(6)	(5 )
Amortization of:		
Prior service cost	1	1
Actuarial loss (a)	2	2
Net periodic defined benefit costs	\$—	\$1

(a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million for the

three months ended March 31, 2018. This difference is recorded as a regulatory asset.

Table of Contents

	Other Postretirement Benefits Three Months	
	2019	2018
PPL		
Service cost	\$ 1	\$ 1
Interest cost	6	3
Expected return on plan assets	(5 )	(4 )
Amortization of prior service cost	—	(1 )
Net periodic defined benefit costs	\$ 2	\$ (1 )
LKE		
Service cost	\$ 1	\$ 1
Interest cost	2	2
Expected return on plan assets	(2 )	(2 )
Net periodic defined benefit costs	\$ 1	\$ 1

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

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 12 for additional information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended March 31, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months	
	2019	2018
PPL Electric	\$ 3	\$ 4
LG&E	1	2
KU	—	1

(All Registrants)

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial gain and loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 13 for additional information.

## 11. 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.

#### Talen Litigation (PPL)

##### Background

In September 2013, one of PPL's former subsidiaries, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply, the parent company of PPL Montana, entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's

Table of Contents

competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy Marketing also became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

Talen Montana, LLC v. PPL Corporation et al.

On October 29, 2018, Talen Montana filed a complaint against PPL and certain of its affiliates and current and former officers and directors in the First Judicial District of the State of Montana, Lewis & Clark County (Talen Direct Action). Talen Montana alleges that in November 2014, PPL and certain officers and directors improperly distributed to PPL's subsidiaries \$733 million of the proceeds from the sale of Talen Montana's (then PPL Montana's) hydroelectric generating facilities, rendering PPL Montana insolvent. The complaint includes claims for, among other things, breach of fiduciary duty; aiding and abetting breach of fiduciary duty; breach of an LLC agreement; breach of the implied duty of good faith and fair dealing; tortious interference; negligent misrepresentation; and constructive fraud. Talen Montana is seeking unspecified damages, including punitive damages, and other relief. In December 2018, PPL moved to dismiss the Talen Direct Action for lack of jurisdiction and, in the alternative, to dismiss because Delaware is the appropriate forum to decide this case. In January 2019, Talen Montana dismissed without prejudice all current and former PPL Corporation directors from the case. The parties are proceeding with limited jurisdictional discovery.

Talen Montana Retirement Plan and Talen Energy Marketing, LLC, Individually and on Behalf of All Others Similarly Situated v. PPL Corporation et al.

Also on October 29, 2018, Talen Montana Retirement Plan and Talen Energy Marketing filed a putative class action complaint on behalf of current and contingent creditors of Talen Montana who allegedly suffered harm or allegedly will suffer reasonably foreseeable harm as a result of the November 2014 distribution. The action was filed in the Sixteenth Judicial District of the State of Montana, Rosebud County, against PPL and certain of its affiliates and current and former officers and directors (Talen Putative Class Action). The plaintiffs assert claims for, among other things, fraudulent transfer, both actual and constructive; recovery against subsequent transferees; civil conspiracy; aiding and abetting tortious conduct; and unjust enrichment. They are seeking avoidance of the purportedly fraudulent transfer, unspecified damages, including punitive damages, the imposition of a constructive trust, and other relief. In December 2018, PPL removed the Talen Putative Class Action from the Sixteenth Judicial District of the State of Montana to the United States District Court for the District of Montana, Billings Division. In January 2019, the plaintiffs moved to remand the Talen Putative Class Action back to state court, and dismissed without prejudice all current and former PPL Corporation directors from the case. The parties are proceeding with limited discovery in connection with the motion to remand.

PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action). In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this point; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. The complaint was subsequently amended on January 11, 2019 and March 20, 2019, including to add claims related to indemnification with respect to the Talen Direct Action and the Talen Putative Class Action (together, the Montana Actions), request a declaration that the Montana Actions are time-barred under the spinoff agreements, and allege additional facts to support the tortious interference claim. On April 19, 2019, the defendants filed motions to dismiss the amended complaint.



Table of Contents

With respect to each of the Talen-related matters described above, PPL believes that the 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent at all relevant times.

Additionally, the agreements entered into in connection with the spinoff, which PPL and affiliates of Talen Energy and Riverstone negotiated and executed prior to the 2014 distribution, directly address the treatment of the proceeds from the sale of PPL Montana's hydroelectric generating facilities; in those agreements, Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds.

PPL believes that it has meritorious defenses to the claims made in the Montana Actions and intends to continue to vigorously defend against these actions. The Montana Actions and the Delaware Action are all in the early stages of litigation; at this time, PPL cannot predict the outcome of these matters or estimate the range of possible losses, if any, that PPL might incur as a result of the claims, although they could be material.

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

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

In July 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky (U.S. District Court) alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. In December 2017 the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. In January 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. In September 2018, the U.S. Court of Appeals for the Sixth

Circuit issued its ruling affirming the lower court's decision to dismiss the Clean Water Act claims but reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. In October 2018, KU filed a petition for rehearing to the U.S. Court of Appeals for the Sixth Circuit regarding the RCRA claims. In November 2018, the U.S. Court of Appeals for the Sixth Circuit denied KU's petition for rehearing regarding the RCRA claims. On January 8, 2019, KU filed an answer to plaintiffs' complaint in the U.S. District Court. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. The aquatic study and risk assessment are being undertaken pursuant to a 2017 agreed Order with the Kentucky Energy and Environment Cabinet (KEEC). KU conducted sampling of Herrington Lake in 2017 and 2018. A final report of KU's findings is expected to be submitted to the KEEC in mid-2019. KU believes that current and planned measures for the E.W. Brown plant, including closure of impoundments, cessation of certain discharges, and deployment of new discharge controls, are sufficient to ensure compliance with applicable requirements. However, until

Table of Contents

completion of the aquatic study and related assessments and issuance of regulatory determinations by the KEEC, PPL, LKE and KU are unable to determine whether additional remedial measures will be required at the E.W. Brown plant.

Regulatory Issues (All Registrants)

See Note 7 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

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

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

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

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

Environmental Matters

(All Registrants)

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

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

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate

recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel generation plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter

54

---

## Table of Contents

and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

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

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

### Ozone

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

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, have evaluated the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. In August 2018, Kentucky submitted a proposed state implementation plan finding that no additional reductions beyond existing and planned controls set forth in Kentucky's existing State Implementation Plan are necessary to prevent Kentucky from contributing significantly to any other state's nonattainment. In September 2018, the EPA announced its denial of petitions filed by Maryland and Delaware alleging that states including Kentucky and Pennsylvania contribute to nonattainment in the petitioning states. PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, or whether such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross-State Air Pollution Rule.

### Sulfur Dioxide

In 2010, the EPA issued a new NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in nonattainment. In July 2013, the EPA finalized nonattainment designations for parts of

the country, including part of Jefferson County in Kentucky. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. On March 18, 2019, the EPA issued a final rule retaining, without revision, the primary standards for sulfur dioxide as specified in the 2010 NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the current sulfur dioxide standards.

#### MATS

In December 2018, the EPA proposed to revise its previous finding that regulation of hazardous air emissions from coal- and oil-fired electricity generating units is justified and instead found that the agency erred in determining such regulation is “appropriate and necessary” due to mistakes in its regulatory cost-benefit analysis. As a result of its review of relevant precedent, the EPA further proposed not to remove the coal- and oil-fired electricity generating unit source category from the list of sources that must be regulated under Section 112 of the Clean Air Act and leave existing emission standards in place. Finally, the EPA proposed to find that the results of its residual risk and technology review indicate that residual risk due to air

Table of Contents

toxic emissions from this source category is acceptable and current standards provide an ample margin of safety to protect public health. LG&E and KU have completed installation of controls at their plants as necessary to achieve compliance with the applicable provision of MATS. It is not possible to predict the outcome of the pending regulatory proceedings including whether existing standards may be repealed, or the resulting impacts on plant operations, financial condition or results of operations.

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's rules issued in 2015 imposing GHG emission standards for both new and existing power plants, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon reduction credits to offset emissions associated with WPD's operations. The cost of these credits is not significant and is included in WPD's current operating expenses.

The current U.K. carbon allowance scheme ended on March 31, 2019, with the last reporting year being April 2018 through March 2019. It is now being replaced by reporting requirements under the Streamlined Energy and Carbon Reporting framework along with a tax (called "Climate Change Levy") which is equivalent to the current cost of the carbon reduction credits. The cost of the tax is not significant and will be included in WPD's operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act including the EPA's Proposed Affordable Clean Energy Rule

In 2015, the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the Clean Power Plan).

Following legal challenges to the Clean Power Plan, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the Clean Power Plan in October 2017, the EPA proposed to rescind the Clean Power Plan. In August 2018, the EPA proposed the Affordable Clean Energy (ACE) Rule as a replacement for the Clean Power Plan pertaining to existing sources. The ACE Rule would give states broad latitude

in establishing emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" that would reduce GHG emissions per unit of electricity generated. The ACE Rule proposes a list of "candidate technologies" that would be considered in establishing standards of performance at individual power plants. The ACE Rule also proposes new criteria for determining whether such efficiency projects would trigger New Source Review and thus be subject to more stringent emission controls.

In anticipation of the EPA's Clean Power Plan, the Kentucky General Assembly passed legislation in April 2014 limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the Clean Power Plan, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are broadly consistent with the EPA's proposed ACE Rule.



## Table of Contents

LG&E and KU are monitoring developments at the state and federal level. Until the ACE Rule is finalized and the state determines implementation measures, PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

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

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. The parties have entered into a tolling agreement with respect to this matter through June 2019. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

### Water/Waste

(PPL, LKE, LG&E and KU)

### CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. In March 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. In July 2018, the EPA published in the Federal Register a final rule extending the deadline for closure of certain impoundments to October 2020 and adopting substantive changes relating to certifications, suspensions of groundwater monitoring and groundwater protection standards for certain constituents. The EPA has announced that additional amendments to the rule will be proposed. In August 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR rule including provisions allowing unlined impoundments to continue operating and exempting inactive impoundments at inactive plants from regulation. As a result of subsequent challenges to the CCR Rule amendments, on March 13, 2019, the D.C. Circuit granted the EPA's motion for voluntary remand of the amended rule without voiding it. Consequently, the CCR Rule amendments, including extended compliance deadline, will remain in place as the EPA considers further rule amendments and revisions. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing rulemaking or potential impacts on current LG&E and KU compliance plans. The Registrants are currently finalizing closure plans and schedules.

In January 2017, the Kentucky Energy and Environment Cabinet issued a new state rule relating to CCR management aimed at reflecting the requirements of the federal CCR rule. As a result of a subsequent legal challenge in January 2018, the Franklin County, Kentucky Court issued an opinion invalidating certain procedural elements of the rule. LG&E and KU presently operate their facilities under continuing permits authorized under the former program and do not currently anticipate material impacts as a result of the judicial ruling. The Kentucky Energy and Environmental Cabinet has announced it expects to propose new state rules in 2019 aimed at addressing the procedural deficiencies identified by the court and providing the regulatory framework necessary for operation of the state CCR program in lieu of the federal CCR Rule, as provided by applicable law.

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

## Table of Contents

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 16 below and Note 19 in the Registrants' 2018 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

### Clean Water Act

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

### Clean Water Act Jurisdiction

For several years the EPA has been seeking to clarify which discharges are subject to the Clean Water Act. The issue is primarily significant to PPL's operations with respect to discharges to groundwater from ash basins. There has been substantial disagreement over whether Clean Water Act jurisdiction covers discharges of contaminants to groundwater which reach surface water via a direct hydrologic connection. In particular, various environmental groups and other stakeholders argue that leaking impoundments located at coal-fired power plants are subject to Clean Water Act jurisdiction, while facility owners and many states contend that such situations are more appropriately addressed under the EPA's CCR Rule and state regulatory programs.

Most recently, on April 12, 2019, the EPA released an interpretive statement concluding that Clean Water Act jurisdiction does not cover discharges to groundwater regardless of any hydrologic connection between groundwater and jurisdictional surface water.

The issue has been subject to extensive litigation in federal courts including the citizen suit filed against KU with respect to its E.W. Brown plant, as discussed under "Legal Matters" - "E.W. Brown Environmental Claims" above, resulting in contradictory rulings by courts in different jurisdictions. On February 19, 2019, the U.S. Supreme Court agreed to review a lower court ruling on the issue. The U.S. Supreme Court's ruling in that case, likely to be issued in the first half of 2020, is expected to provide additional clarification on the scope of Clean Water Act jurisdiction. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements.

PPL, LKE, LG&E and KU are unable to predict the outcome of current or future regulatory proceedings or litigation or potential impacts on current LG&E and KU compliance plans.

### ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater

and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. On April 12, 2019, the U.S. Court of Appeals for the Fifth Circuit vacated and remanded portions of the ELGs concerning legacy wastewater and CCR leachate. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other

## Table of Contents

discharge limits are expected to be significant. Certain costs are included in the Registrants' capital plans and are subject to rate recovery.

### Seepages and Groundwater Infiltration

In addition to the actions described above, LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

(All Registrants)

### Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating, responding to agency inquiries, implementing various preventative measures, and/or remediating contamination under programs other than those described in the sections above. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

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

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

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

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

PPL Electric had a recorded liability of \$11 million at March 31, 2019 and December 31, 2018 representing its best estimate of the probable loss incurred to remediate the sites noted in this section. Depending on the outcome of

investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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

Other

Guarantees and Other Assurances

(All Registrants)

59

---

Table of Contents

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 March 31, 2019. "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," for which PPL has a total recorded liability of \$6 million at March 31, 2019 and December 31, 2018. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at March 31, 2019	Expiration Date
PPL		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10	(b) 2020
WPD guarantee of pension and other obligations of unconsolidated entities	81	(c)
PPL Electric		
Guarantee of inventory value	12	(d) 2020
LKE		
Indemnification of lease termination and other divestitures	200	(e) 2021
LG&E and KU		
LG&E and KU obligation of shortfall related to OVEC		(f)

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 (a) 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.

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 (b) 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.

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 March 31, 2019, 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.

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.

LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.



Table of Contents

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 (f) proportionate share of OVEC's outstanding debt was \$112 million at March 31, 2019, consisting of LG&E's share of \$78 million and KU's share of \$34 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2018 Form 10-K for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a pro-rata share of certain OVEC obligations of 4.85% filed for bankruptcy under Chapter 11 and, in August 2018, received a rejection Order for the OVEC power purchase contract in the bankruptcy proceeding. OVEC and certain sponsors are appealing this action, in addition to pursuing appropriate rejection claims in the bankruptcy proceeding. OVEC and certain of its sponsors, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs, establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt. The ultimate outcome of these matters, including the sponsor bankruptcy and related proceedings and any other potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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

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

## 12. Related Party Transactions

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all services companies, the costs of directly assignable and attributable services are charged to the respective recipients as direct support costs. General costs that cannot be directly assigned or attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended March 31, 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

	2019	2018
PPL Electric from PPL Services	\$16	\$ 16
LKE from PPL Services	9	7
PPL Electric from PPL EU Services	37	35
LG&E from LKS	38	38
KU from LKS	43	42

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.

#### Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a \$650 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at March 31, 2019 and December 31, 2018. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statement.

Table of Contents

(LKE)

LKE maintains a \$375 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2019 and December 31, 2018, \$187 million and \$113 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at March 31, 2019 and December 31, 2018 were 3.99% and 3.85%. Interest expense on the revolving line of credit was not significant for the three months ending March 31, 2019 and 2018.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at March 31, 2019 and December 31, 2018. The interest rate on the loan is based on the PPL affiliate's credit rating and equal to one-month LIBOR plus a spread.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At March 31, 2019 and December 31, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$4 million for the three months ending March 31, 2019 and 2018.

LKE maintains a \$250 million ten-year note with a PPL affiliate with an interest rate of 4%. At March 31, 2019 and December 31, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$3 million for the three months ending March 31, 2019.

VEBA Funds Receivable (PPL Electric)

In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay medical claims of active bargaining unit employees. Based on PPL Electric's participation in PPL's Other Postretirement Benefit plan, PPL Electric was allocated a portion of the excess funds from PPL Services. These funds have been recorded as an intercompany receivable on PPL Electric's Balance Sheets. The receivable balance decreases as PPL Electric pays incurred medical claims and is reimbursed by PPL Services. The intercompany receivable balance associated with these funds was \$44 million as of March 31, 2019, of which \$10 million was reflected in "Accounts receivable from affiliates" and \$34 million was reflected in "Other noncurrent assets" on the PPL Electric Balance Sheet. The intercompany receivable balance associated with these funds was \$45 million as of December 31, 2018, of which \$10 million was reflected in "Account receivable from affiliates" and \$35 million was reflected in "Other noncurrent assets" on the PPL Electric Balance Sheet.

Other (PPL Electric, LG&E and KU)

See Note 10 for discussions regarding intercompany allocations associated with defined benefits.

Table of Contents

## 13. Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the periods ended March 31, were:

	Three Months 20192018	
Other Income		
Defined benefit plans - non-service credits (Note 10)	\$80	\$68
Interest income	6	—
AFUDC - equity component	5	5
Miscellaneous	6	1
Total Other Income	97	74
Other Expense		
Economic foreign currency exchange contracts (Note 15)	33	112
Charitable contributions	2	4
Miscellaneous	10	1
Total Other Expense	45	117
Other Income (Expense) - net	\$52	\$(43)

## 14. 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. See Note 1 in each Registrant's 2018 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:

	March 31, 2019			December 31, 2018				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$518	\$518	\$	—	—\$621	\$621	\$	—
Restricted cash and cash equivalents (a)	22	22	—	—	22	22	—	—
Special use funds (a):								

Edgar Filing: PPL Corp - Form 10-Q

Money market fund	3	3	—	—	59	59	—	—
Commingled debt fund measured at NAV (b)	31	—	—	—	—	—	—	—
Commingled equity fund measured at NAV (b)	29	—	—	—	—	—	—	—
Total special use funds	63	3	—	—	59	59	—	—

63

---

Table of Contents

	March 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Price risk management assets (c):								
Foreign currency contracts	163	—	163	—	202	—	202	—
Cross-currency swaps	118	—	118	—	135	—	135	—
Total price risk management assets	281	—	281	—	337	—	337	—
Total assets	\$884	\$543	\$281	\$	-\$1,039	\$702	\$337	\$
Liabilities								
Price risk management liabilities (c):								
Interest rate swaps	\$21	\$—	\$21	\$	-\$20	\$—	\$20	\$
Foreign currency contracts	13	—	13	—	2	—	2	—
Total price risk management liabilities	\$34	\$—	\$34	\$	-\$22	\$—	\$22	\$
PPL Electric								
Assets								
Cash and cash equivalents	\$23	\$23	\$—	\$	-\$267	\$267	\$—	\$
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$25	\$25	\$—	\$	-\$269	\$269	\$—	\$
LKE								
Assets								
Cash and cash equivalents	\$22	\$22	\$—	\$	-\$24	\$24	\$—	\$
Total assets	\$22	\$22	\$—	\$	-\$24	\$24	\$—	\$
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$21	\$—	\$21	\$	-\$20	\$—	\$20	\$
Total price risk management liabilities	\$21	\$—	\$21	\$	-\$20	\$—	\$20	\$
LG&E								
Assets								
Cash and cash equivalents	\$9	\$9	\$—	\$	-\$10	\$10	\$—	\$
Total assets	\$9	\$9	\$—	\$	-\$10	\$10	\$—	\$
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$21	\$—	\$21	\$	-\$20	\$—	\$20	\$
Total price risk management liabilities	\$21	\$—	\$21	\$	-\$20	\$—	\$20	\$
KU								
Assets								
Cash and cash equivalents	\$13	\$13	\$—	\$	-\$14	\$14	\$—	\$
Total assets	\$13	\$13	\$—	\$	-\$14	\$14	\$—	\$

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

In accordance with accounting guidance, certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy.

(b) The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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

Table of Contents

## Special Use Funds

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees. In 2019, the funds are invested primarily in commingled debt and equity funds measured at NAV. In 2018, the funds were invested in money market funds.

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

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

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

## Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2019		December 31, 2018	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$21,316	\$24,471	\$20,599	\$22,939
PPL Electric	3,694	4,054	3,694	3,901
LKE	5,936	6,389	5,502	5,768
LG&E	2,009	2,135	1,809	1,874
KU	2,554	2,777	2,321	2,451

(a) Amounts are net of debt issuance costs.

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



## 15. Derivative Instruments and Hedging Activities

### Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Table of Contents

Market Risk

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

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

Interest Rate Risk

PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.

PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

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

(All Registrants)

Commodity Price Risk

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

PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.

LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

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

•

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2018 Form 10-K for additional information on revenue recognition under RIIO-ED1.

PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

#### Equity Securities Price Risk

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

PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Table of Contents

Credit Risk

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

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

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

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

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

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

PPL had a \$17 million obligation to return cash collateral under master netting arrangements at March 31, 2019 and a \$40 million obligation to return cash collateral under master netting arrangements at December 31, 2018.

PPL had no obligation to post cash collateral under master netting arrangements at March 31, 2019 and December 31, 2018.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at March 31, 2019 and December 31, 2018.

LKE, LG&E and KU had no obligation to post cash collateral under master netting arrangements at March 31, 2019 and December 31, 2018.

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

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios and lock in benchmark interest rates in anticipation of future

financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

#### Cash Flow Hedges (PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL had no such contracts at March 31, 2019.

At March 31, 2019, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

## Table of Contents

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

For the three months ended March 31, 2019 and 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At March 31, 2019, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

### Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At March 31, 2019, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

### Foreign Currency Risk

#### (PPL)

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

### Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at March 31, 2019.

At March 31, 2019 and December 31, 2018, PPL had \$31 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

### Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2019, the total exposure hedged by PPL was approximately £1.3 billion (approximately \$1.8 billion based on contracted rates). These contracts have termination dates ranging from April 2019 through October 2020.

### Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at March 31, 2019 and December 31, 2018.

See Note 1 in each Registrant's 2018 Form 10-K for additional information on accounting policies related to derivative instruments.

Table of Contents

(PPL)

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

	March 31, 2019				December 31, 2018			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$—	\$—	—	\$ 4	\$—	\$—	—	\$ 4
Cross-currency swaps (b)	5	—	—	—	6	—	—	—
Foreign currency contracts	—	—	104	13	—	—	103	2
Total current	5	—	104	17	6	—	103	6
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	17	—	—	—	16
Cross-currency swaps (b)	113	—	—	—	129	—	—	—
Foreign currency contracts	—	—	59	—	—	—	99	—
Total noncurrent	113	—	59	17	129	—	99	16
Total derivatives	\$ 118	\$—	—	\$ 34	\$ 135	\$—	—	\$ 22

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

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the period ended March 31, 2019.

Derivative Relationships	Three Months		Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
	Derivative Gain (Loss) Recognized in OCI			Gain (Loss) Reclassified from AOCI into Income	
Cash Flow Hedges:					
Interest rate swaps	\$ —		Interest expense	\$ (2	)
Cross-currency swaps	(23	)	Other income (expense) - net	(28	)
Total	\$ (23	)		\$ (30	)
Net Investment Hedges:					
Foreign currency contracts	\$ —				



Edgar Filing: PPL Corp - Form 10-Q

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in	Three Months
	Income on Derivative	
Foreign currency contracts	Other income (expense) - net	\$ (33 )
Interest rate swaps	Interest expense	(1 )
	Total	\$ (34 )
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as	Three Months
	Regulatory Liabilities/Assets	
Interest rate swaps	Regulatory assets - noncurrent	\$ (1 )

Table of Contents

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the period ended March 31, 2018.

Derivative Relationships	Three Months Derivative Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Gain (Loss) Reclassified from AOCI into Income
Cash Flow Hedges:			
Interest rate swaps	\$ —	Interest expense	\$ (2 )
Cross-currency swaps	(24 )	Other income (expense) - net	(12 )
Total	\$ (24 )		\$ (14 )
Net Investment Hedges:			
Foreign currency contracts	\$ (1 )		
Derivatives Not Designated as Hedging Instruments			
	Location of Gain (Loss) Recognized in	Income on Derivative	Three Months
Foreign currency contracts		Other income (expense) - net	\$ (112 )
Interest rate swaps		Interest expense	(1 )
		Total	\$ (113 )
Derivatives Not Designated as Hedging Instruments			
	Location of Gain (Loss) Recognized as	Regulatory Liabilities/Assets	Three Months
Interest rate swaps		Regulatory assets - noncurrent	\$ 4

The following table presents the effect of cash flow hedge activity on the Statement of Income for the period ended March, 31, 2019.

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	Other Interest Income Expense(Expense) - net
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	\$ 241	\$ 52
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(2 )	—
Cross-currency swaps:		

Hedged items	—	28
Amount of gain (loss) reclassified from AOCI to income	—	(28 )

(LKE and LG&E)

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

	March 31, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4

70

---

Table of Contents

	March 31, 2019	December 31, 2018
	Assets	Liabilities
Noncurrent:		
Price Risk Management		
Assets/Liabilities:		
Interest rate swaps	— 17	— 16
Total noncurrent	— 17	— 16
Total derivatives	\$ —\$ 21	\$ —\$ 20

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the period ended March 31, 2019.

Location of Gain (Loss) Recognized in		
Derivative Instruments	Income on Derivatives	Three Months
Interest rate swaps	Interest expense	\$ (1 )
Location of Gain (Loss) Recognized in		
Derivative Instruments	Regulatory Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (1 )

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the period ended March 31, 2018.

Location of Gain (Loss) Recognized in		
Derivative Instruments	Income on Derivatives	Three Months
Interest rate swaps	Interest expense	\$ (1 )
Location of Gain (Loss) Recognized in		
Derivative Instruments	Regulatory Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 4

(PPL, LKE, LG&E and KU)

#### Offsetting Derivative Instruments

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

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

Edgar Filing: PPL Corp - Form 10-Q

the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
March 31, 2019								
Treasury Derivatives								
PPL	\$281	\$ 12	\$ 17	\$252	\$34	\$ 12	\$	—\$22
LKE	—	—	—	—	21	—	—	21
LG&E	—	—	—	—	21	—	—	21

71

---

Table of Contents

	Assets				Liabilities			
	Gross	Eligible for Offset	Cash Collateral Received	Net	Gross	Eligible for Offset	Cash Collateral Pledged	Net
December 31, 2018								
Treasury Derivatives								
PPL	\$337	\$ 2	\$ 40	\$295	\$22	\$ 2	\$	—\$20
LKE	—	—	—	—	20	—	—	20
LG&E	—	—	—	—	20	—	—	20

## Credit Risk-Related Contingent Features

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

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

(PPL, LKE and LG&E)

At March 31, 2019, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 7	\$ 5	\$ 5
Aggregate fair value of collateral posted on these derivative instruments	—	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	7	5	5

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

## 16. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 11 for information on the CCR rule. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Table of Contents

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

	PPL	LKE	LG&E	KU
Balance at December 31, 2018	\$347	\$296	\$103	\$193
Accretion	4	4	2	2
Effect of foreign exchange rates	2	—	—	—
Changes in estimated timing or cost	8	8	8	—
Obligations settled	(21 )	(21 )	(4 )	(17 )
Balance at March 31, 2019	\$340	\$287	\$109	\$178

## 17. Accumulated Other Comprehensive Income (Loss)

(PPL)

The after-tax changes in AOCI by component for the periods ended March 31 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Defined benefit plans Prior service costs	Actuarial gain (loss)	Total
PPL					
December 31, 2018	\$ (1,533 )	\$ (7 )	\$(19)	\$(2,405)	\$(3,964)
Amounts arising during the period	294	(19 )	—	(3 )	272
Reclassifications from AOCI	—	24	—	21	45
Net OCI during the period	294	5	—	18	317
March 31, 2019	\$ (1,239 )	\$ (2 )	\$(19)	\$(2,387)	\$(3,647)
December 31, 2017	\$ (1,089 )	\$ (13 )	\$(7 )	\$(2,313)	\$(3,422)
Amounts arising during the period	116	(20 )	—	(1 )	95
Reclassifications from AOCI	—	12	—	36	48
Net OCI during the period	116	(8 )	—	35	143
March 31, 2018	\$ (973 )	\$ (21 )	\$(7 )	\$(2,278)	\$(3,279)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the periods ended March 31.

	Three Months 2019	2018	Affected Line Item on the Statements of Income
Details about AOCI			
Qualifying derivatives			
Interest rate swaps	\$(2 )	\$(2 )	Interest Expense
Cross-currency swaps	(28 )	(12 )	Other Income (Expense) - net
Total Pre-tax	(30 )	(14 )	
Income Taxes	6	2	
Total After-tax	(24 )	(12 )	

Defined benefit plans



Edgar Filing: PPL Corp - Form 10-Q

Net actuarial loss (a)	(26 )	(45 )
Total Pre-tax	(26 )	(45 )
Income Taxes	5	9
Total After-tax	(21 )	(36 )

Total reclassifications during the period \$(45) \$(48)

(a) These AOCI components are included in the computation of net periodic defined benefit cost. See Note 10 for additional information.

Table of Contents

18. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. The Registrants will adopt this guidance on January 1, 2020. The Registrants are currently assessing the impact of adopting this guidance.

Accounting for Implementation Costs in a Cloud Computing Service Arrangement

In August 2018, the FASB issued accounting guidance that requires a customer in a cloud computing hosting arrangement that is a service contract to capitalize implementation costs consistent with internal-use software guidance for non-service arrangements. Prior guidance had not addressed these implementation costs. The guidance requires these capitalized implementation costs to be amortized over the term of the hosting arrangement to the statement of income line item where the service arrangement costs are recorded. The guidance also prescribes the financial statement classification of the capitalized implementation costs and cash flows associated with the arrangement. Additional quantitative and qualitative disclosures are also required.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This standard must be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

The Registrants are currently assessing the impact of adopting this guidance and will adopt this standard as of the beginning of the period adopted, which will be January 1, 2020. Key implementation activities in process of being completed include assessing the population of cloud computing hosting arrangements in the scope of this guidance and identifying and evaluating industry issues.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. The Registrants will adopt this guidance on January 1, 2020. The Registrants are currently assessing the impact of adopting this guidance.

Table of Contents

Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. 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. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2018 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

• "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.

• "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2019 with the same period in 2018. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.

• "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.

• "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

Overview

Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers

natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (\* denotes a Registrant).

75

---

Table of Contents

PPL Corporation\*

PPL Capital  
Funding  
Provides  
financing for the  
operations of PPL  
and certain  
subsidiaries

PPL Global  
Engages in the  
regulated  
distribution of  
electricity in the  
U.K.

LKE\*

PPL Electric\*  
Engages in  
the regulated  
transmission  
and  
distribution  
of electricity  
in  
Pennsylvania

LG&E\*  
Engages in the regulated  
generation, transmission,  
distribution and sale of  
electricity and regulated  
distribution and sale of  
natural gas in  
Kentucky

KU\*  
Engages in the  
regulated  
generation,  
transmission,  
distribution and sale  
of electricity,  
primarily in  
Kentucky

U.K.  
Regulated Segment

Kentucky  
Regulated  
Segment

Pennsylvania  
Regulated  
Segment

PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. PPL Global is not a Registrant. Unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky and Virginia. KU is subject to regulation as a public

Table of Contents

utility by the KPSC, the VSCC and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name.

Business Strategy

(All Registrants)

PPL operates seven fully regulated, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky, in constructive regulatory jurisdictions with distinct regulatory structures and customer classes. PPL believes this business portfolio positions the company well for continued success and provides earnings and dividend growth potential.

PPL's strategy, and that of the other Registrants, is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.S. businesses, central to PPL's strategy is recovering capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, and gas supply clause) and recovery on construction work-in-progress that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge



accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which the Registrants operate (U.K., U.S. federal and state). This is supported by a strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve customer service, reliability and operational efficiency.

Table of Contents

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant. PPL expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

U.K. Membership in European Union (PPL)

The U.K. formally began the process of leaving the European Union (EU) on March 29, 2017 by triggering Article 50 of the Lisbon Treaty. The U.K. had two years from that date to negotiate a withdrawal agreement governing its exit from the EU (Brexit). The U.K. and EU also agreed to a transition period lasting until the end of 2020, during which both parties will negotiate a future trade relationship. The final withdrawal agreement and future trade relationship are subject to ratification by both the U.K. and EU parliaments.

In November 2018, U.K. Prime Minister Theresa May and the EU decided on a withdrawal agreement covering a broad range of issues. On January 15, 2019, the U.K. Parliament voted overwhelmingly to reject this withdrawal agreement. On January 29, 2019, the U.K. Parliament voted on a series of non-binding amendments to influence future Brexit negotiations, directing May to conduct further negotiations with the EU; however, the EU was not prepared to renegotiate the existing deal. Parliament voted to reject the withdrawal agreement on March 13, 2019 and again on March 29, 2019.

Following a series of Parliamentary indicative votes that failed to produce a clear majority for an alternative to the current withdrawal agreement, on April 10, 2019, the U.K. requested an extension until June 30, 2019. The EU approved a longer than requested extension until October 31, 2019. The U.K. can leave the EU earlier if a withdrawal agreement is ratified before the new deadline. The U.K. must also participate in the European Parliament elections on May 23, 2019 if the U.K. Parliament has not passed and ratified the withdrawal agreement by May 22, 2019. The U.K. would be forced to withdraw from the EU on June 1, 2019 if it fails to participate in the European elections.

Significant uncertainty surrounds the status of negotiations and next steps in the Brexit process. If an agreement is not reached and ratified by October 31, 2019, the U.K. may face leaving the EU without an agreed deal. The U.K. may also request a further extension of the Article 50 process, subject to approval from the EU's 27 remaining members. The U.K. could also choose to revoke Article 50 and remain a member of the EU.

PPL believes that its greatest risk related to Brexit is the potential decline in the value of the GBP compared to the U.S. dollar. A decline in the value of the GBP compared to the U.S. dollar will reduce the value of WPD's earnings to PPL.

PPL has executed hedges to mitigate the foreign exchange risk to its U.K. earnings. As of April 29, 2019, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2019 at an average rate of \$1.41 per GBP and 55% hedged for 2020 at an average rate of \$1.47 per GBP.

PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be material.

PPL does not expect the financial condition and results of operations of WPD itself to change significantly as a result of Brexit, with or without an approved plan of withdrawal. The regulatory environment and operation of WPD's businesses are not expected to change. WPD is halfway through RIIO-ED1, the current price control period, with allowed revenues agreed with Ofgem through March 2023. The impact of a slower economy or recession on WPD would be mitigated in part because U.K.

Table of Contents

regulation provides that any reduction in the volume of electricity delivered will be recovered in allowed revenues in future periods through the K-factor adjustment. See "Item 1. Business - Segment Information - U.K. Regulated Segment" in PPL's 2018 Form 10-K for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher operation and maintenance and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit without an approved plan of withdrawal and has taken actions to mitigate potential increasing costs and disruption to its critical sources of supply. Additionally, less than 1% of WPD's employees are non-U.K. EU nationals and no change in their domicile is expected.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, and ELGs. See Notes 7, 11 and 16 to the Financial Statements for a discussion of these significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015. Additionally, KU retired two older coal-fired units at the E.W. Brown plant in February 2019 with a combined summer rating capacity of 272 MW.

TCJA Impact on FERC Rates (All Registrants)

In November 2018, the FERC issued a Policy Statement stating that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also in November 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates.

LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA and HB 487 related to their FERC-jurisdictional rates to be significant.

On February 28, 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Rules and Regulation of the FERC. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient accumulated deferred income taxes (ADIT) resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. On April 29, 2019, the FERC accepted the proposed revisions to the formula rate template, which will be effective June 1, 2019, as well as the proposed adjustments to accumulated deferred income taxes, effective January 1, 2018. The changes related to ADIT impacting the transmission formula rate revenues have not been significant since the new rate went into effect on June 1, 2018.

#### Pennsylvania Alternative Ratemaking

In June 2018, Governor Tom Wolf signed into law Act 58 of 2018 (codified at 66 Pa. C.S. § 1330) authorizing public utilities to implement alternative rates and rate mechanisms in base rate proceedings before the PUC. The effective date of Act 58 was August 27, 2018.

Table of Contents

Under the new law, a public utility may file an application to establish alternative rates and rate mechanisms in a base rate proceeding. These alternative rates and rate mechanisms include, but are not limited to, the following: decoupling mechanisms, performance-based rates, formula rates, multi-year rate plans, or a combination of those or other mechanisms.

The alternative rate mechanisms may include reconcilable surcharges and rates established under current law, including returns on and return of capital investments. Act 58 explicitly provides that it does not invalidate or void any rate mechanisms approved by the PUC prior to the legislation's effective date. Act 58 also specifies customer notice requirements concerning the utility's application for alternative rates or rate mechanisms.

On August 23, 2018, the PUC issued a Tentative Implementation Order seeking comments on its proposed interpretation and implementation of Act 58, Section 1330 of the Public Utility Code, 66 Pa. C.S. 1330. PPL Electric and various other parties filed comments and reply comments. On April 25, 2019, the PUC issued an Implementation Order adopting its interpretation and implementation of Act 58 as described therein and establishing the procedures through which utilities may seek PUC approval of alternative rates and rate mechanisms.

PPL Electric views the passage of Act 58 and the PUC's Implementation Order to be generally favorable regulatory developments that are expected to expand the rate-making mechanisms available to Pennsylvania regulated utility companies.

RIIO-ED2 Review (PPL)

In 2018, Ofgem published its decision on the overall RIIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls, following its consultation process earlier in the year. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Financial and Operational Developments - Regulatory Requirements - RIIO-2 Framework Review," in PPL's 2018 Form 10-K for details about the decision document.

Also in 2018, Ofgem published its sector specific methodology consultation related to its RIIO-2 price controls for the gas distribution, gas transmission and electricity transmission operators. Ofgem has explicitly stated that this current consultation does not apply directly to electricity distribution network operators, although some decisions may set precedents for the RIIO-ED2 price control. As a result, PPL and WPD continue to be engaged with Ofgem and responded to this consultation in March 2019, expressing views on key issues such as the cost of capital and incentive schemes that are critical to the application of the overall RIIO-2 framework. Management projects significant electricity distribution network investment will be required in RIIO-ED2 to achieve the U.K.'s carbon reduction targets and that Ofgem will need to design a framework that sufficiently incentivizes delivery of those objectives.

The consultation process specifically for the RIIO-ED2 price control is scheduled to begin in the third quarter of 2019, with the RIIO-ED2 price control to become effective in April 2023. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

FERC Transmission Rate Filing

(PPL, LKE, LG&E and KU)

In August 2018, LG&E and KU submitted an application to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky. The amounts at issue are generally waivers or credits granted to such customers for either LG&E and KU or MISO transmission charges incurred depending upon the direction of certain transmission service incurred by the municipalities. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. On March 21, 2019, the FERC issued an Order granting LG&E's and KU's request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which transition mechanism will be subject to FERC review and approval. LG&E and KU are currently evaluating the Order. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

## Table of Contents

### (PPL and PPL Electric)

In April 2019, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing establishes the revenue requirement used to set rates that will take effect in June 2019.

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

On September 28, 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately \$112 million at KU and increases in annual base electricity and gas rates of approximately \$35 million and \$25 million at LG&E. LG&E's and KU's applications also sought to include changes associated with the TCJA and state tax reform in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when new base rates go into effect. The elimination of the TCJA bill credit mechanism will result in an estimated annual electricity revenue increase of approximately \$58 million at KU and increases in electricity and gas revenues of approximately \$40 million and \$12 million at LG&E. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%.

On March 1, 2019, LG&E and KU, along with substantially all intervening parties to the proceeding, filed stipulation and recommendation agreements (stipulations) with the KPSC resolving all material issues with the parties. In addition to terminating the TCJA bill credit mechanism, the proposed stipulations provided for increases in annual revenue requirements associated with base electricity rates of approximately \$58 million at KU and increases in annual base electricity and gas rates of approximately \$4 million and \$20 million at LG&E, based on a return-on-equity of 9.725%.

On April 30, 2019, the KPSC issued orders ruling on open issues and approving the proposed stipulations filed in March 2019. The orders provide for increases in annual revenue requirements associated with base electricity rates of \$56 million at KU and increases associated with base electricity and gas rates of \$2 million and \$19 million at LG&E. With the termination of the TCJA bill credit mechanism, this represents annual revenue increases of \$187 million (\$114 million at KU and \$73 million at LG&E). The new base rates and all elements of the orders became effective on May 1, 2019.

### Results of Operations

#### (PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three months ended March 31, 2019 with the same period in 2018. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Adjusted Gross Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year



weighted-average GBP to U.S. dollar exchange rate.

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

A "Statement of Income Analysis, Earnings and Adjusted Gross Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing the three months ended March 31, 2019 with the same period in 2018. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

Table of Contents

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2019	2018	\$ Change
Operating Revenues	\$2,079	\$2,126	\$ (47 )
Operating Expenses			
Operation			
Fuel	194	214	(20 )
Energy purchases	250	241	9
Other operation and maintenance	490	468	22
Depreciation	284	269	15
Taxes, other than income	80	83	(3 )
Total Operating Expenses	1,298	1,275	23
Other Income (Expense) - net	52	(43 )	95
Interest Expense	241	239	2
Income Taxes	126	117	9
Net Income	\$466	\$452	\$ 14

## Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Domestic:	
PPL Electric Distribution price (a)	\$ 9
PPL Electric Distribution volume	2
PPL Electric PLR (b)	10
PPL Electric Transmission Formula Rate (c)	7
PPL Electric TCJA refund (d)	(24 )
LKE Volumes (e)	(30 )
LKE Fuel and other energy prices	(10 )
LKE ECR	4
LKE TCJA refund (d)	4
Other	13
Total Domestic	(15 )
U.K.:	

Edgar Filing: PPL Corp - Form 10-Q

Price	26
Volume	(14 )
Foreign currency exchange rates	(40 )
Other	(4 )
Total U.K.	(32 )
Total	\$ (47 )

- (a) Distribution price variance is primarily due to reconcilable cost recovery mechanisms approved by the PUC.  
(b) The increase was primarily due to higher energy volumes.

82

---

Table of Contents

- (c) Transmission Formula Rate revenues include the \$16 million unfavorable impact of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.  
Represents the change in estimated income tax savings owed to or already refunded to distribution customers related to the reduced U.S. federal corporate income taxes as a result of the TCJA. For PPL Electric, the TCJA customer refund for the period January through June 2018 was recorded during the second quarter of 2018 and the negative surcharge rate for distribution customers went into effect July 1, 2018 based on the PUC Order.
- (d) The decrease was primarily due to weather.
- (e) The decrease was primarily due to weather.

## Fuel

Fuel decreased \$20 million for the three months ended March 31, 2019 compared with 2018, primarily due to an \$11 million decrease in volumes driven by weather and a \$9 million decrease in commodity costs.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months	
Domestic:		
Storm costs	\$	11
LKE vegetation management	2	
LKE gas distribution maintenance and compliance	2	
Other	21	
U.K.:		
Foreign currency exchange rates	(7	)
Network maintenance	(1	)
Third-party engineering	(2	)
Other	(4	)
Total	\$	22

## Depreciation

The increase (decrease) in depreciation for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months	
Additions to PP&E, net	\$	18
Foreign currency exchange rates	(4	)
Other	1	
Total	\$	15

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Economic foreign currency exchange contracts (Note 15)	\$ 79
Defined benefit plans - non-service credits (Note 10)	12
Other	4
Total	\$ 95

Table of Contents

## Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Long-term debt interest expense	\$ 4
Foreign currency exchange rates	(6 )
Other	4
Total	\$ 2

## Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Change in pre-tax income	\$ 2
Federal and state tax reserve adjustments	3
Other	4
Total	\$ 9

## Segment Earnings

PPL's net income by reportable segments for the periods ended March 31 were as follows:

	Three Months		
	2019	2018	\$ Change
U.K. Regulated	\$264	\$197	\$ 67
Kentucky Regulated	117	133	(16 )
Pennsylvania Regulated	121	148	(27 )
Corporate and Other (a)	(36 )	(26 )	(10 )
Net Income	\$466	\$452	\$ 14

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The decrease in 2019 compared with 2018 was primarily due to higher income taxes and operation and maintenance expense.

## Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items may include items such as:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Table of Contents

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 15 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended March 31 were as follows:

	Three Months		
	2019	2018	\$ Change
U.K. Regulated	\$304	\$262	\$ 42
Kentucky Regulated	117	133	(16 )
Pennsylvania Regulated	121	148	(27 )
Corporate and Other	(34 )	(26 )	(8 )
Earnings from Ongoing Operations	\$508	\$517	\$ (9 )

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

## U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 57% of PPL's Net Income for the three months ended March 31, 2019 and 40% of PPL's assets at March 31, 2019.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2019	2018	\$ Change
Operating revenues	\$583	\$615	\$ (32 )
Other operation and maintenance	118	132	(14 )
Depreciation	62	62	—
Taxes, other than income	32	34	(2 )
Total operating expenses	212	228	(16 )
Other Income (Expense) - net	45	(47 )	92
Interest Expense	99	107	(8 )
Income Taxes	53	36	17
Net Income	264	197	67
Less: Special Items	(40 )	(65 )	25
Earnings from Ongoing Operations	\$304	\$262	\$ 42

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended March 31.



	Income Statement Line Item	Three Months	
		2019	2018
Foreign currency economic hedges, net of tax of \$11, \$17 (a)	Other Income (Expense) - net	\$(40)	\$(65)
Total Special Items		\$(40)	\$(65)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Adjusted Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

Table of Contents

	Three Months
U.K.	
U.K. Adjusted Gross Margins	\$ 10
Other operation and maintenance	5
Depreciation	(5 )
Other Income (Expense) - net	19
Interest expense	2
Income taxes	(5 )
U.S.	
Interest expense and other	(2 )
Income taxes	1
Foreign currency exchange, after-tax	17
Earnings from Ongoing Operations	42
Special items, after-tax	25
Net Income	\$ 67

U.K.

See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.

Higher other income (expense) - net primarily from higher pension income.

## Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 25% of PPL's Net Income for the three months ended March 31, 2019 and 34% of PPL's assets at March 31, 2019.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2019	2018	\$ Change
Operating revenues	\$845	\$872	\$ (27 )
Fuel	194	214	(20 )
Energy purchases	79	80	(1 )
Other operation and maintenance	214	205	9
Depreciation	123	117	6
Taxes, other than income	18	17	1
Total operating expenses	628	633	(5 )
Other Income (Expense) - net	—	(3 )	3
Interest Expense	70	67	3

Edgar Filing: PPL Corp - Form 10-Q

Income Taxes	30	36	(6 )
Net Income	117	133	(16 )
Less: Special Items (a)	—	—	—
Earnings from Ongoing Operations	\$117	\$133	\$ (16 )

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

Table of Contents

	Three Months
Kentucky Adjusted Gross Margins	\$ (5 )
Other operation and maintenance	(12 )
Depreciation	(4 )
Taxes, other than income	(1 )
Other Income (Expense) - net	3
Interest Expense	(3 )
Income Taxes	6
Net Income	\$ (16 )

See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.

Higher other operation and maintenance expense primarily from increases in various costs that were not individually significant in comparison to the prior year.

#### Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 26% of PPL's Net Income for the three months ended March 31, 2019 and 25% of PPL's assets at March 31, 2019.

Net Income and Earnings from Ongoing Operations for the period ended March 31 include the following results.

	Three Months		
	2019	2018	\$ Change
Operating revenues	\$645	\$639	\$ 6
Energy purchases	171	161	10
Other operation and maintenance	150	133	17
Depreciation	95	85	10
Taxes, other than income	31	32	(1 )
Total operating expenses	447	411	36
Other Income (Expense) - net	7	6	1
Interest Expense	42	37	5
Income Taxes	42	49	(7 )
Net Income	121	148	(27 )
Less: Special Items (a)	—	—	—
Earnings from Ongoing Operations	\$121	\$148	\$ (27 )

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Adjusted Gross Margins	\$ (11 )
Other operation and maintenance	(12 )
Depreciation	(8 )
Taxes, other than income	1
Other Income (Expense) - net	1
Interest Expense	(5 )
Income Taxes	7
Net Income	\$ (27 )

Table of Contents

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.

• Higher other operation and maintenance expense primarily from increases in various costs that were not individually significant in comparison to the prior year.

• Higher depreciation expense primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

## Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended March 31.

	2019 Three Months				Total
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	
Net Income	\$264	\$ 117	\$ 121	\$ (36 )	\$466
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$11	(40 )	—	—	—	(40 )
Talen litigation costs, net of tax of \$0 (a)	—	—	—	(2 )	(2 )
Total Special Items	(40 )	—	—	(2 )	(42 )
Earnings from Ongoing Operations	\$304	\$ 117	\$ 121	\$ (34 )	\$508

	2018 Three Months				Total
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	
Net Income	\$197	\$ 133	\$ 148	\$ (26 )	\$452
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$17	(65 )	—	—	—	(65 )
Total Special Items	(65 )	—	—	—	(65 )
Earnings from Ongoing Operations	\$262	\$ 133	\$ 148	\$ (26 )	\$517

(a) During the first quarter of 2019, PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana, and related cases. See Note 11 to the Financial Statements for additional information.

## Adjusted Gross Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

• "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues,

as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

"Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.

Table of Contents

"Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, Storm Damage and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

## Changes in Adjusted Gross Margins

The following table shows Adjusted Gross Margins by PPL's reportable segment and by component, as applicable, for the periods ended March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months 2019	2018	\$ Change
U.K. Regulated			
U.K. Adjusted Gross Margins	\$ 546	\$ 572	\$ (26 )
Impact of changes in foreign currency exchange rates			(36 )
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ 10
Kentucky Regulated			
Kentucky Adjusted Gross Margins			
LG&E	\$ 238	\$ 241	\$ (3 )
KU	292	294	(2 )
Total Kentucky Adjusted Gross Margins	\$ 530	\$ 535	\$ (5 )



Pennsylvania  
Regulated  
Pennsylvania  
Adjusted Gross  
Margins

Distribution	\$	260	\$	278	\$	(18	)
Transmission		143		136		7	
Total Pennsylvania Adjusted Gross Margins	\$	403	\$	414	\$	(11	)

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased primarily due to \$26 million from the April 1, 2018 price increase, partially offset by \$14 million of lower volumes.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins decreased primarily due to \$10 million of decreased sales volumes due to weather (\$4 million at LG&E and \$6 million at KU), partially offset by returns on additional environmental capital investments of \$5 million (\$3 million at LG&E and \$2 million at KU).

Table of Contents

## Pennsylvania Adjusted Gross Margins

## Distribution

Distribution Adjusted Gross Margins decreased primarily due to a \$23 million negative surcharge which was effective as of July 1, 2018, related to the reduced U.S. federal corporate income taxes as a result of the TCJA. This decrease was partially offset by \$6 million of higher electricity sales volumes.

## Transmission

Transmission Adjusted Gross Margins increased primarily due to an increase of \$26 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by \$16 million from the impact of the reduced U.S. federal corporate income taxes as a result of the TCJA.

## Reconciliation of Adjusted Gross Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended March 31.

	2019 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$574(c)	\$ 845	\$ 645	\$ 15	\$ 2,079
Operating Expenses					
Fuel	—	194	—	—	194
Energy purchases	—	79	171	—	250
Other operation and maintenance	28	22	31	409	490
Depreciation	—	19	10	255	284
Taxes, other than income	—	1	30	49	80
Total Operating Expenses	28	315	242	713	1,298
Total	\$546	\$ 530	\$ 403	\$(698)	\$ 781

	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$604(c)	\$ 872	\$ 639	\$ 11	\$ 2,126
Operating Expenses					
Fuel	—	214	—	—	214
Energy purchases	—	80	161	—	241
Other operation and maintenance	32	25	26	385	468
Depreciation	—	17	8	244	269
Taxes, other than income	—	1	30	52	83

Edgar Filing: PPL Corp - Form 10-Q

Total Operating Expenses	32	337	225	681	1,275
Total	\$572	\$ 535	\$ 414	\$(670)	\$ 851

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$9 million and \$11 million for the three months ended March 31, 2019 and 2018.

Table of Contents

## PPL Electric: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2019	2018	\$ Change
Operating Revenues	\$645	\$639	\$ 6
Operating Expenses			
Operation			
Energy purchases	171	161	10
Other operation and maintenance	150	133	17
Depreciation	95	85	10
Taxes, other than income	31	32	(1 )
Total Operating Expenses	447	411	36
Other Income (Expense) - net	5	6	(1 )
Interest Income from Affiliate	2	—	2
Interest Expense	42	37	5
Income Taxes	42	49	(7 )
Net Income	\$121	\$148	\$(27 )

## Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Distribution price (a)	\$ 9
Distribution volume	2
PLR (b)	10
Transmission Formula Rate (c)	7
TCJA refund (d)	(24 )
Other	2
Total	\$ 6

(a) Distribution price variance is primarily due to reconcilable cost recovery mechanisms approved by the PUC.

(b) The increase was primarily due to higher energy volumes.

(c) Transmission Formula Rate revenues include the \$16 million unfavorable impact of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

The estimated income tax savings owed to or already returned to distribution customers related to the reduced U.S. federal corporate income taxes as a result of the TCJA. The TCJA customer refund for the period January through (d) June 2018 was recorded during the second quarter of 2018 and the negative surcharge rate for distribution customers went into effect July 1, 2018 based on the PUC Order.

## Energy Purchases

Energy purchases increased \$10 million for the three months ended March 31, 2019 compared with 2018, primarily due to higher PLR volumes of \$15 million, partially offset by lower transmission enhancement expenses of \$6 million.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Corporate service costs	\$ 2
Storm costs	9
Other	6
Total	\$ 17

Table of Contents

## Depreciation

Depreciation increased \$10 million for the three months ended March 31, 2019 compared with 2018, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

## Interest Expense

Interest expense increased \$5 million for the three months ended March 31, 2019 compared with 2018, primarily due to the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048.

## Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Change in pre-tax income	\$ (9 )
Other	2
Total	\$ (7 )

## Earnings

	Three Months Ended March 31, 2019	2018
Net Income	\$121	\$148
Special Item, gain (loss), after-tax (a)	—	—

(a) There are no items that management considers special for the periods presented.

Earnings decreased for the three month period in 2019 compared with 2018, driven primarily by the impact of reduced revenues due to the refund of the income tax benefit in rates due to U.S. tax reform, higher operation and maintenance expense and higher depreciation expense, partially offset by returns on additional capital investments in transmission.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Pennsylvania Adjusted Gross Margins	\$ (11 )
Other operation and maintenance	(12 )
Depreciation	(8 )
Taxes, other than income	1
Other Income (Expense) - net	1

Interest Expense	(5 )
Income Taxes	7
Net Income	\$ (27 )

#### Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods. Within PPL's discussion, PPL Electric's Adjusted Gross Margins are referred to as "Pennsylvania Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

Table of Contents

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins (a)	Other (b)	Operating Income (b)	Adjusted Gross Margins (a)	Other (b)	Operating Income (b)
Operating Revenues	\$645	\$—	\$ 645	\$639	\$—	\$ 639
Operating Expenses						
Energy purchases	171	—	171	161	—	161
Other operation and maintenance	31	119	150	26	107	133
Depreciation	10	85	95	8	77	85
Taxes, other than income	30	1	31	30	2	32
Total Operating Expenses	242	205	447	225	186	411
Total	\$403	\$(205)	\$ 198	\$414	\$(186)	\$ 228

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

## LKE: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2019	2018	\$ Change
Operating Revenues	\$845	\$872	\$ (27 )
Operating Expenses			
Operation			
Fuel	194	214	(20 )
Energy purchases	79	80	(1 )
Other operation and maintenance	214	205	9
Depreciation	123	117	6
Taxes, other than income	18	17	1
Total Operating Expenses	628	633	(5 )
Other Income (Expense) - net	—	(3 )	3
Interest Expense	54	50	4
Interest Expense with Affiliate	7	5	2
Income Taxes	32	39	(7 )
Net Income	\$124	\$142	\$ (18 )

## Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Volumes (a)	\$ (30 )
Fuel and other energy prices (10 )	



ECR	4
TCJA refund (b)	4
Other	5
Total	\$ (27 )

(a) The decrease was primarily due to weather.

(b) Represents the change in estimated income tax savings owed to customers related to the reduced U.S. federal corporate income taxes as a result of the TCJA.

Table of Contents

## Fuel

Fuel decreased \$20 million for the three months ended March 31, 2019 compared with 2018, primarily due to an \$11 million decrease in volumes driven by weather and a \$9 million decrease in commodity costs.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Storm costs	\$ 2
Vegetation management	2
Gas distribution maintenance and compliance	2
Other	3
Total	\$ 9

## Income Taxes

Income taxes decreased \$7 million for the three months ended March 31, 2019 compared with 2018 primarily due to lower pre-tax income.

## Earnings

	Three Months Ended March 31, 2019	2018
Net Income	\$ 124	\$ 142
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings decreased for the three month period in 2019 compared with 2018, primarily due to lower sales volumes driven by weather, higher other operation and maintenance expense and higher depreciation expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Adjusted Gross Margins	\$ (5 )
Other operation and maintenance	(12 )
Depreciation	(4 )
Taxes, other than income	(1 )
Other Income (Expense) - net	3

Interest Expense	(6 )
Income Taxes	7
Net Income	\$ (18 )

#### Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Adjusted Gross Margins are referred to as "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

Table of Contents

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$845	\$—	\$ 845	\$872	\$—	\$ 872
Operating Expenses						
Fuel	194	—	194	214	—	214
Energy purchases	79	—	79	80	—	80
Other operation and maintenance	22	192	214	25	180	205
Depreciation	19	104	123	17	100	117
Taxes, other than income	1	17	18	1	16	17
Total Operating Expenses	315	313	628	337	296	633
Total	\$530	\$(313)	\$ 217	\$535	\$(296)	\$ 239

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

## LG&amp;E: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2019	2018	\$ Change
Operating Revenues			
Retail and wholesale	\$397	\$407	\$ (10 )
Electric revenue from affiliate	13	12	1
Total Operating Revenues	410	419	(9 )
Operating Expenses			
Operation			
Fuel	78	79	(1 )
Energy purchases	74	76	(2 )
Energy purchases from affiliate	2	6	(4 )
Other operation and maintenance	94	89	5
Depreciation	51	48	3
Taxes, other than income	9	9	—
Total Operating Expenses	308	307	1
Other Income (Expense) - net	—	(1 )	1
Interest Expense	21	18	3
Income Taxes	17	21	(4 )
Net Income	\$64	\$72	\$ (8 )

## Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Volumes (a)	\$ (15 )
Fuel and other energy prices	(1 )
ECR	2
TCJA refund (b)	1
Other	4
Total	\$ (9 )

(a) The decrease was primarily due to weather.

95

---

Table of Contents

(b) Represents the change in estimated income tax savings owed to customers related to the reduced U.S. federal corporate income taxes as a result of the TCJA.

## Energy Purchases from Affiliate

Energy purchases from affiliate decreased \$4 million for the three months ended March 31, 2019 compared with 2018, primarily due to the timing of generation maintenance outages.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Gas distribution maintenance and compliance	\$ 2
Storm costs	1
Vegetation management	1
Other	1
Total	\$ 5

## Depreciation

Depreciation increased \$3 million for the three months ended March 31, 2019 compared with 2018, due to additional assets placed into service, net of retirements.

## Interest Expense

Interest expense increased \$3 million for the three months ended March 31, 2019 compared with 2018, primarily due to increased commercial paper borrowings and higher interest rates.

## Income Taxes

Income taxes decreased \$4 million for the three months ended March 31, 2019 compared with 2018 primarily due to lower pre-tax income.

## Earnings

	Three Months Ended March 31, 2019	2018
Net Income	\$64	\$ 72
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings decreased for the three month period in 2019 compared with 2018, primarily due to lower sales volumes driven by weather, higher other operation and maintenance expense, higher depreciation expense and higher interest expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

96

---

Table of Contents

	Three Months
Adjusted Gross Margins	\$ (3 )
Other operation and maintenance	(5 )
Depreciation	(3 )
Taxes, other than income	1
Other Income (Expense) - net	1
Interest Expense	(3 )
Income Taxes	4
Net Income	\$ (8 )

## Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins (a)	Other (a)	Operating Income (b)	Adjusted Gross Margins (a)	Other (a)	Operating Income (b)
Operating Revenues	\$410	\$—	\$ 410	\$419	\$—	\$ 419
Operating Expenses						
Fuel	78	—	78	79	—	79
Energy purchases, including affiliate	76	—	76	82	—	82
Other operation and maintenance	9	85	94	9	80	89
Depreciation	8	43	51	8	40	48
Taxes, other than income	1	8	9	—	9	9
Total Operating Expenses	172	136	308	178	129	307
Total	\$238	\$(136)	\$ 102	\$241	\$(129)	\$ 112

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.



Table of Contents

## KU: Statement of Income Analysis, Earnings and Adjusted Gross Margins

## Statement of Income Analysis

Net income for the periods ended March 31 includes the following results.

	Three Months		
	2019	2018	\$ Change
Operating Revenues			
Retail and wholesale	\$448	\$465	\$ (17 )
Electric revenue from affiliate	2	6	(4 )
Total Operating Revenues	450	471	(21 )
Operating Expenses			
Operation			
Fuel	116	135	(19 )
Energy purchases	5	4	1
Energy purchases from affiliate	13	12	1
Other operation and maintenance	108	105	3
Depreciation	72	68	4
Taxes, other than income	9	8	1
Total Operating Expenses	323	332	(9 )
Other Income (Expense) - net	2	(3 )	5
Interest Expense	26	25	1
Income Taxes	22	24	(2 )
Net Income	\$81	\$87	\$ (6 )

## Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2019 compared with 2018 was due to:

	Three Months
Volumes (a)	\$ (16 )
Fuel and other energy prices (b)	(10 )
TCJA refund (b)	3
ECR	2
Total	\$ (21 )

(a) The decrease was primarily due to weather.

(b) Represents the change in estimated income tax savings owed to customers related to the reduced U.S. federal corporate income taxes as a result of the TCJA.

## Fuel

Fuel decreased \$19 million for the three months ended March 31, 2019 compared with 2018, primarily due to an \$11 million decrease in volumes driven by weather and a \$9 million decrease in commodity costs.

Depreciation

Depreciation increased \$4 million for the three months ended March 31, 2019 compared with 2018, primarily due to additional assets placed into service, net of retirements.

98

---

Table of Contents

## Earnings

	Three Months Ended March 31, 2019	2018
Net Income	\$81	\$ 87
Special items, gains (losses), after-tax (a)	—	—

(a) There are no items management considers special for the periods presented.

Earnings decreased for the three month period in 2019 compared with 2018, primarily due to lower sales volumes driven by weather and higher other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Adjusted Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months
Adjusted Gross Margins	\$ (2 )
Other operation and maintenance	(6 )
Depreciation	(2 )
Taxes, other than income	(2 )
Other Income (Expense) - net	5
Interest Expense	(1 )
Income Taxes	2
Net Income	\$ (6 )

## Adjusted Gross Margins

"Adjusted Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Adjusted Gross Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Adjusted Gross Margins are included in "Kentucky Adjusted Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended March 31.

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins (a)	Other (b)	Operating Income (b)	Adjusted Gross Margins (a)	Other (b)	Operating Income (b)
Operating Revenues	\$450	\$—	\$ 450	\$471	\$—	\$ 471
Operating Expenses						
Fuel	116	—	116	135	—	135
Energy purchases, including affiliate	18	—	18	16	—	16
Other operation and maintenance	13	95	108	16	89	105

Edgar Filing: PPL Corp - Form 10-Q

Depreciation	11	61	72	9	59	68
Taxes, other than income	—	9	9	1	7	8
Total Operating Expenses	158	165	323	177	155	332
Total	\$292	\$(165)	\$ 127	\$294	\$(155)	\$ 139

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

Table of Contents

## Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

## Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
March 31, 2019					
Cash and cash equivalents	\$ 518	\$ 23	\$ 22	\$ 9	\$ 13
Short-term debt	1,428	60	69	69	—
Long-term debt due within one year	202	—	202	106	96
Notes payable with affiliates	—	—	187	—	—
December 31, 2018					
Cash and cash equivalents	\$ 621	\$ 267	\$ 24	\$ 10	\$ 14
Short-term debt	1,430	—	514	279	235
Long-term debt due within one year	530	—	530	434	96
Notes payable with affiliates	—	—	113	—	—

At March 31, 2019, \$137 million of cash and cash equivalents were denominated in GBP. If these amounts would (a) be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 6 to the Financial Statements in PPL's 2018 Form 10-K for additional information on undistributed earnings of WPD.

Net cash provided by (used in) operating, investing and financing activities for the three month periods ended March 31, and the changes between periods, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2019					
Operating activities	\$474	\$ 81	\$270	\$157	\$174
Investing activities	(722 )	(264 )	(278 )	(117 )	(161 )
Financing activities	142	(61 )	6	(41 )	(14 )
2018					
Operating activities	\$566	\$ 76	\$278	\$146	\$185
Investing activities	(753 )	(246 )	(294 )	(150 )	(143 )
Financing activities	331	141	13	3	(46 )
Change - Cash Provided (Used)					
Operating activities	\$(92 )	\$ 5	\$(8 )	\$11	\$(11 )
Investing activities	31	(18 )	16	33	(18 )
Financing activities	(189 )	(202 )	(7 )	(44 )	32

## Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2019 compared with 2018 were as follows.

100

---

Table of Contents

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$14	\$ (27 )	\$(18)	\$ (8 )	\$(6 )
Non-cash components	(3 )	5	38	11	19
Working capital	(138)	(5 )	(102)	(51 )	(57 )
Defined benefit plan funding	23	7	87	55	47
Other operating activities	12	25	(13 )	4	(14 )
Total	\$(92)	\$ 5	\$(8 )	\$ 11	\$(11)

## (PPL)

PPL's cash provided by operating activities in 2019 decreased \$92 million compared with 2018.

Net income increased \$14 million between periods and included a decrease in non-cash charges of \$3 million. The decrease in non-cash charges was primarily due to a decrease in unrealized losses on hedging activities and an increase in the U.K. net periodic defined benefit credits (primarily due to lower levels of unrecognized losses being amortized and an increase in expected returns on higher asset balances) partially offset by an increase in deferred income taxes (primarily due to book versus tax plant timing differences) and an increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements).

The \$138 million decrease in cash from changes in working capital was primarily due to an increase in net regulatory assets and liabilities (due to a decrease primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments) and an increase in prepayments (primarily due to timing of payments) partially offset by an increase in other current liabilities (primarily due to timing of payments).

Defined benefit plan funding was \$23 million lower in 2019.

## (PPL Electric)

PPL Electric's cash provided by operating activities in 2019 increased \$5 million compared with 2018.

Net income decreased \$27 million between the periods and included an increase in non-cash components of \$5 million. The increase in non-cash components was primarily due to a \$10 million increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program) partially offset by a \$5 million decrease in deferred income taxes (due to book versus tax plant timing differences and Federal net operating losses).

The \$5 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to an increase in the 2019 gross receipts tax prepayment compared to 2018) and an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), partially offset by an increase in accounts payable (due to timing and settlement of payroll transactions and federal income tax payments).

Defined benefit plan funding was \$7 million lower in 2019.

The \$25 million increase in cash provided by other operating activities was primarily due to a decrease in non-current regulatory assets (primarily due to \$17 million of storm costs incurred in March 2018, with no comparable storm costs in 2019).

(LKE)

LKE's cash provided by operating activities in 2019 decreased \$8 million compared with 2018.

Net income decreased \$18 million between the periods and included an increase in non-cash charges of \$38 million.

The increase in non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to book versus tax plant timing differences).



Table of Contents

The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments), a decrease in taxes payable (primarily due to timing of payments), an increase in unbilled revenues (primarily due to weather) and an increase in fuel inventory (primarily due to lower generation driven by weather), partially offset by an increase in other current liabilities (primarily due to timing of payments) and a decrease in other accounts receivable (primarily due to timing of payments).

Defined benefit plan funding was \$87 million lower in 2019.

The decrease in cash from LKE's other operating activities was primarily driven by an increase in ARO expenditures.

(LG&E)

LG&E's cash provided by operating activities in 2019 increased \$11 million compared with 2018.

Net income decreased \$8 million between the periods and included an increase in non-cash charges of \$11 million.

The increase in non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to book versus tax plant timing differences).

The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments) and a decrease in taxes payable (primarily due to timing of payments), partially offset by an increase in other current liabilities (primarily due to timing of payments).

Defined benefit plan funding was \$55 million lower in 2019.

(KU)

KU's cash provided by operating activities in 2019 decreased \$11 million compared with 2018.

Net income decreased \$6 million between the periods and included an increase in non-cash charges of \$19 million.

The increase in non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to book versus tax plant timing differences).

The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments), a decrease in taxes payable (primarily due to timing of payments), an increase in unbilled revenues (primarily due to weather) and an increase in fuel inventory (primarily due to lower generation driven by weather), partially offset by an increase in other current liabilities (primarily due to timing of payments) and a decrease in other accounts receivable (primarily due to timing of payments).

Defined benefit plan funding was \$47 million lower in 2019.

The decrease in cash from KU's other operating activities was primarily driven by an increase in ARO expenditures.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the three months ended March 31, 2019 compared with 2018 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ 21	\$ (19 )	\$ 16	\$ 33	\$(18)

For PPL, the decrease in expenditures was due to lower project expenditures at WPD, LKE and LG&E, partially offset by higher project expenditures at PPL Electric and KU. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures at

Table of Contents

LKE was primarily due to decreased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and KU's Ghent plant, offset by spending on various other projects at KU that are not individually significant. The increase in project expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure.

## Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2019 compared with 2018 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$(144)	\$—	\$(100)	\$(100)	\$—
Stock issuances/redemptions, net	(78 )	—	—	—	—
Dividends	(23 )	(48 )	—	4	40
Capital contributions/distributions, net		—	13	—	28
Change in short-term debt, net	55	(153 )	17	52	(35 )
Notes payable with affiliate		—	62	—	—
Other financing activities	1	(1 )	1	—	(1 )
Total	\$(189)	\$(202 )	\$(7 )	\$(44 )	\$32

See Note 8 to the Financial Statements in this Form 10-Q for information on 2019 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 8 to the Financial Statements in the Registrants' 2018 Form 10-K for information on 2018 activity.

## Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets, except as noted below. At March 31, 2019, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

## External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,550	\$ —	\$ 983	\$ 567
PPL Electric Credit Facility	650	—	61	589
LG&E Credit Facilities (a)	700	200	269	231
KU Credit Facilities (b)	598	—	431	167

Edgar Filing: PPL Corp - Form 10-Q

Total LKE	1,298	200	700	398
Total U.S. Credit Facilities (c)	\$ 3,498	\$ 200	\$ 1,744	\$ 1,554
Total U.K. Credit Facilities (d)	£ 1,055	£ 250	£ —	£ 803

- (a) At March 31, 2019, the amounts borrowed and \$200 million of commercial paper issuances are included in "Long-term debt" on the Balance Sheets.
- (b) At March 31, 2019, outstanding commercial paper issuances of \$233 million are included in "Long-term debt" on the Balance Sheets.
- The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its
- (c) affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 6%, LKE - 19%, LG&E - 32% and KU - 37%.
- The amounts borrowed at March 31, 2019 were a USD-denominated borrowing of \$200 million and
- (d) GBP-denominated borrowings of £99 which equated to \$131 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £153 million as of the date borrowed. At March 31, 2019, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.1 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 13% of the total committed capacity.

Table of Contents

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

## Intercompany (LKE, LG&amp;E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 375	\$ 187	\$	—\$ 188
LG&E Money Pool (a)	500	—	269	231
KU Money Pool (a)	500	—	233	267

LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. (a) However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 12 to the Financial Statements for further discussion of intercompany credit facilities.

## Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, are included in "Short-term debt" on the Balance Sheets, except for certain LG&E and KU issuances, as noted above, and are supported by the respective Registrant's credit facility. The following commercial paper programs were in place at March 31, 2019:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,500	\$ 968	\$ 532
PPL Electric	650	60	590
LG&E	350	269	81
KU	350	233	117
Total LKE	700	502	198
Total PPL	\$ 2,850	\$ 1,530	\$ 1,320

## Long-term Debt (All Registrants)

See Note 8 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

## Equity Securities Activities

## ATM

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program; including a

forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the three months ended March 31, 2019.

#### Common Stock Dividends

In February 2019, PPL declared a quarterly common stock dividend, payable April 1, 2019, of 41.25 cents per share (equivalent to \$1.65 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.

Table of Contents

Rating Agency Actions

(All Registrants)

Moody's and S&P periodically review the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2019:

(PPL, LKE and LG&E)

In March 2019, Moody's and S&P assigned ratings of A1 and A to LG&E's \$400 million 4.25% First Mortgage Bonds due 2049. The bonds were issued April 1, 2019.

In March 2019, Moody's and S&P assigned ratings of A1 and A to the County of Jefferson, Kentucky's \$128 million 1.85% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project), due 2033, previously issued on behalf of LG&E. The bonds were remarketed April 1, 2019.

(PPL, LKE and KU)

In March 2019, Moody's assigned a rating of A1 and S&P confirmed its rating of A to KU's \$300 million 4.375% First Mortgage Bonds due 2045. The bonds were issued April 1, 2019.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 15 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position

at March 31, 2019.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2018 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 14 and 15 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

105

---



Table of Contents

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

## Interest Rate Risk

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

The following interest rate hedges were outstanding at March 31, 2019.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
<b>PPL</b>				
Cash flow hedges				
Cross-currency swaps (c)	\$ 702	\$ 119	\$ (77 )	2028
Economic hedges				
Interest rate swaps (d)	147	(21 )	(1 )	2033
<b>LKE</b>				
Economic hedges				
Interest rate swaps (d)	147	(21 )	(1 )	2033
<b>LG&amp;E</b>				
Economic hedges				
Interest rate swaps (d)	147	(21 )	(1 )	2033

(a) Includes accrued interest, if applicable.

Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset (b) becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at March 31, 2019

was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at March 31, 2019 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 672
PPL Electric	185
LKE	164
LG&E	60
KU	89

Table of Contents

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in and earnings of U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at March 31, 2019.

Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b) £ 1,258	\$ 150	\$ (149 )	2020

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

(b) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

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

PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.

LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

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

WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2018 Form 10-K for additional information on revenue recognition under RIIO-ED1.

PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk (All Registrants)

See Notes 14 and 15 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2018 Form 10-K for additional information.

#### Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$294 million for the three months ended March 31, 2019, which primarily reflected a \$504 million increase to PP&E and a \$98 million increase to goodwill, partially offset by a \$304 million increase to long-term debt and a \$4 increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation gain of \$117 million for the three months ended March 31, 2018, which primarily reflected a \$212 million increase to PP&E and a \$44 million increase to goodwill partially offset by a \$125 million increase to long-term debt and a \$14 million increase to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Table of Contents

Related Party Transactions (All Registrants)

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 12 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

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.

Capacity Needs (PPL, LKE, LG&E and KU)

As a result of environmental requirements and energy efficiency measures, KU retired two older coal-fired electricity generating units at the E.W. Brown plant in February 2019 with a combined summer rating capacity of 272 MW. Despite the retirement of these units, LG&E and KU maintain sufficient generating capacity to serve their load.

Environmental Matters

(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. 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.

See below for further discussion of the EPA's CCR Rule and Note 11 to the Financial Statements for a discussion of other significant environmental matters including Legal Matters, NAAQS, Climate Change, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2018 Form 10-K for additional information.

EPA's CCR Rule (PPL, LKE, LG&E and KU)

Over the next several years, LG&E and KU anticipate undertaking extensive measures, including significant capital expenditures, in complying with the provisions of the EPA's CCR Rule. Although LG&E and KU have identified compliance strategies and are finalizing closure plans and schedules as required by the CCR Rule, remaining regulatory uncertainties could substantially impact current plans. As a result of a judicial settlement, legislative amendments, and the EPA's review of the current program, the EPA is in the process of undertaking significant

revisions to the CCR Rule. In July 2018, the EPA published certain amendments to the CCR Rule which include extending the deadline for commencement of closure of certain impoundments from April 2019 to October 31, 2020. The EPA has announced that additional amendments to the rule will be proposed. In August 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule, including the provisions allowing unlined impoundments to continue operating and provisions exempting certain inactive impoundments from regulation. The exact impact of the judicial decision will be highly dependent on the EPA's rulemaking actions on remand and any subsequent legal challenges. LG&E and KU are evaluating the specific plan impacts of developments to date and will continue to monitor the EPA's ongoing regulatory proceedings.

In connection with the CCR Rule, LG&E and KU have recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 19 to the Financial Statements in the Registrants' 2018 Form 10-K for additional information on AROs. LG&E and KU continue to perform technical evaluations related to their plans to close impoundments at all of their generating plants. Although LG&E and KU believe their recorded liabilities appropriately reflect their obligations under current rules, changes to current compliance strategies as a result of ongoing regulatory proceedings or other

Table of Contents

developments could result in additional closure costs. It is not currently possible to determine the magnitude of any potential cost increases related to changes in compliance strategies or plans, and the timing of future cash outflows are indeterminable at this time. As rules are revised, technical evaluations are completed, and the timing and details of impoundment closures develop further on a plant by-plant basis, LG&E and KU will updated their cost estimates and record any changes as necessary to their ARO liability, which could be material. These costs are subject to rate recovery.

## New Accounting Guidance (All Registrants)

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

## Application of Critical Accounting Policies (All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2018 Form 10-K for a discussion of each critical accounting policy.

	PPL				
	PPL	Electric	LKE	LG&E	KU
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Regulatory Assets and Liabilities	X	X	X	X	X
Price Risk Management	X				
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

Table of Contents

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2019, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal controls over financial reporting during the Registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal, tax, regulatory, environmental or other administrative proceedings that became reportable events or were pending in the first quarter of 2019 see:

• "Item 3. Legal Proceedings" in each Registrant's 2018 Form 10-K; and  
• Notes 6, 7 and 11 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2018 Form 10-K.



Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [ ] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

110

---

Table of Contents

- 4(a) - Supplemental Indenture No 7, dated as of March 1, 2019, to Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2019)
- 4(b) - Supplemental Indenture No. 7, dated as of March 1, 2019, to Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2019)
- 10(a) - Amendment No. 4 to Credit Agreement dated as of March 8, 2019 to Revolving Credit Agreement dated as of July 28, 2014 (as previously amended) among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(b) - Fifth Amendment to Revolving Credit Agreement (as previously amended) dated as of March 8, 2019 among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as guarantor, The Bank of Nova Scotia, as Administrative Agent and the Lenders from time to time party thereto (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(c) - Amendment No. 4 to Credit Agreement dated as of March 8, 2019 to Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as previously amended) among PPL Electric Utilities Corporation, as Borrower, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(d) - Amendment No. 4 to Credit Agreement dated as of March 8, 2019 to Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as previously amended) among Louisville Gas and Electric Company, as Borrower, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(e) - Amendment No. 4 to Credit Agreement dated as of March 8, 2019 to Amended and Restated Revolving Credit Agreement dated as of July 28, 2014 (as previously amended) among Kentucky Utilities Company, as Borrower, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.5 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2019, filed by the following officers for the following companies:

- \*31(a) - PPL Corporation's principal executive officer
- \*31(b) - PPL Corporation's principal financial officer
- \*31(c) - PPL Electric Utilities Corporation's principal executive officer
- \*31(d) - PPL Electric Utilities Corporation's principal financial officer
- \*31(e) - LG&E and KU Energy LLC's principal executive officer
- \*31(f) - LG&E and KU Energy LLC's principal financial officer
- \*31(g) - Louisville Gas and Electric Company's principal executive officer
- \*31(h) - Louisville Gas and Electric Company's principal financial officer
- \*31(i) - Kentucky Utilities Company's principal executive officer
- \*31(j) - Kentucky Utilities Company's principal financial officer

Edgar Filing: PPL Corp - Form 10-Q

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2019, furnished by the following officers for the following companies:

\*32(a) - PPL Corporation's principal executive officer and principal financial officer

\*32(b) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer

\*32(c) - LG&E and KU Energy LLC's principal executive officer and principal financial officer

\*32(d) - Louisville Gas and Electric Company's principal executive officer and principal financial officer

\*32(e) - Kentucky Utilities Company's principal executive officer and principal financial officer

Table of Contents

101.INS -XBRL Instance Document  
101.SCH -XBRL Taxonomy Extension Schema  
101.CAL -XBRL Taxonomy Extension Calculation Linkbase  
101.DEF -XBRL Taxonomy Extension Definition Linkbase  
101.LAB -XBRL Taxonomy Extension Label Linkbase  
101.PRE -XBRL Taxonomy Extension Presentation Linkbase

112

---

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation  
(Registrant)

Date: May 2, 2019 /s/ Marlene C. Beers  
Marlene C. Beers  
Vice President and Controller  
(Principal Accounting Officer)

PPL Electric Utilities Corporation  
(Registrant)

Date: May 2, 2019 /s/ Stephen K. Breininger  
Stephen K. Breininger  
Vice President-Finance and Regulatory Affairs and Controller  
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC  
(Registrant)

Louisville Gas and Electric Company  
(Registrant)

Kentucky Utilities Company  
(Registrant)

Date: May 2, 2019 /s/ Kent W. Blake  
Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

