

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY)	
UTILITIES COMPANY TO ENTER INTO AN)	
AGREEMENT AND PLAN OF EXCHANGE AND)	CASE NO. 10296
TO CARRY OUT CERTAIN TRANSACTIONS)	
IN CONNECTION THEREWITH)	

O R D E R

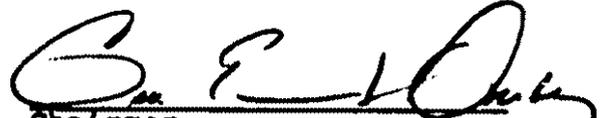
Pursuant to the Commission's Order of October 6, 1988, members of the Commission Staff met with representatives of Kentucky Utilities Company ("KU") and the Utility and Rate Intervention Division, Office of the Attorney General, on November 18, 1988 to address the filing requirements for KU and the holding company under the approved reorganization. A memorandum of understanding noting the agreements reached with regard to specific filing requirements was distributed to all parties on January 18, 1989. The memorandum of understanding is attached hereto as Appendix A and is incorporated in the record of this case.

IT IS THEREFORE ORDERED that:

1. The filing requirements set forth in Appendix A be and they hereby are adopted in accordance with the Commission's October 6, 1988 Order.
2. KU and the holding company shall comply with the filing requirements as set forth in Appendix A.

Done at Frankfort, Kentucky, this 30th day of January, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10296 DATED 1/30/89

I N T R A - A G E N C Y
M E M O R A N D U M

FILED

JAN 18 1989

PUBLIC SERVICE
COMMISSION

TO: Case File No. 10296
Kentucky Utilities Company ("KU")
Holding Company

FROM: Gary Forman, Manager 
Electric and Gas Revenue
Requirements Branch
Rates and Tariffs Division

DATE: January 16, 1989

RE: Informal Conference on Filing Requirements
November 18, 1988

Pursuant to the Order of the Commission dated October 6, 1988, in this matter, representatives of KU, the Attorney General, and the Commission Staff met to discuss the filing requirements for KU and the holding company under the approved reorganization. Prior to the conference, on November 15, 1988, an agenda for the meeting was distributed to all parties to the original proceedings. Attachment A is a list of attendees of the informal conference. Attachment B hereto contains the Agenda.

At the outset of the meeting, KU representatives distributed copies of periodic reports (Attachment C) which would be filed in conformance with Items A through E(2) of Attachment I to the Agenda. KU suggested that these reports would be filed quarterly. Another handout supplied by KU, Attachment D, contained filing deadlines for various reports contained in Attachment C. It was agreed that these would be reasonable filing dates for the periodic information reports required by the Order. KU indicated that it would not begin reporting under the reorganization until other approvals on the matter had been obtained. KU hopes to have

a decision from the SEC by January 1989 for presentation at the April 1989 stockholders' meeting, and other approvals are expected at any time.

With regard to Item E(3) of Attachment I to the informal conference agenda, KU will provide the number of employees for the holding company and each subsidiary on the basis of payroll assignment, along with the quarterly filings. While on the subject of employees, we discussed Item F(7) relating to transfers of professional personnel from KU to the holding company or subsidiaries. It was agreed that KU would provide annually the total number of employees transferred from KU, and; would provide the current and previous job descriptions, years of service, and salaries for each salaried employee transferred. With the understanding that this type of activity would be minimal, initially, it was agreed that in the event this filing became cumbersome for KU, the extent of information filed could be reconsidered.

Staff indicated that Item F(1) should contain a narrative discussion of all types of transactions occurring between KU and affiliated companies during the previous year. This discussion would be general in nature and details of these transactions would be filed in other items. This filing would also contain information with regard to the total monetary value of items sold and/or acquired by KU to or from affiliates with details of major transactions disclosed in other filing requirements.

In discussing Item F(2) we also considered requirements of Agenda Items II A(1-3). The specific identification of major transactions would be reflected in periodic reports by KU of sales or transfers of assets and through contracts for purchase or sale of goods and services. These filings would be made under Item II A(1) at the time these transactions occurred and also recapitulated in annual filings under Item F(2). Considerable discussion ensued as to how major transactions should be defined under F(2)

and significant transfers and major transactions under Item II A. Staff suggested a threshold of \$100,000 value or greater to constitute a major/significant transaction. KU suggested that there may be some merit to establishing a percentage of the asset value to total assets or categories of assets. In consideration of the fact that establishing an agreeable threshold could be time consuming and all parties were not prepared to commit to a certain method or dollar value, it was agreed that staff would be in contact with KU subsequent to the conference to reach an agreement on this matter to include in the conference memorandum. Attachment E contains the criteria for determining significant transactions agreed upon by Staff and KU on December 21, 1988.

KU indicated that to comply with Item F(3) it internally reviews cost allocations on an ongoing basis and modifies the allocation factors if necessary, subsequent to such reviews. In order to spread the review process out, various factors are reviewed at various times throughout the year. KU agreed that it would file its cost allocation factors and a summary of the study conducted and basis for the allocations currently in use. Each time an allocation factor is reviewed and modified, the new factor will be supplied to the Commission.

With regard to Item F(4), KU indicated that each time an asset is transferred it would be in the form of a sale which would be pursuant to an agreement between KU and the purchaser. If an affiliated company purchased the asset a commitment document would be processed through the accounting department which would document the basis for the price. These documents would be filed for each major transaction. For non-major transactions a discussion would be included with annual filings of the nature of transfers of minor monetary value and the general basis for pricing these transactions. KU would also file annually any changes to ongoing contracts for purchase of goods and services and the basis for the pricing.

Agenda Items F(5) and (6) were covered in other areas and no further consideration was given to these items.

Under Agenda Item II A(1), KU agreed to file copies of contracts and agreements at the time they occurred. KU was not certain as to the detail of commitment documents and it was agreed that additional documentation related to contracts and commitment documents would be considered on a case by case basis as these transactions occurred.

Agenda Item II A(2) which indicated that studies should be submitted in conjunction with significant Transfers of Utility Assets, Business Ventures of Holding Company and Other Major Transactions was discussed. KU indicated some reservations with regard to submitting studies since these would not necessarily be conducted in every situation and to compile this information with regard to every significant situation would be burdensome on KU and possibly of little value to interested parties and Staff. KU did offer to make all records associated with creation of new business ventures and major transactions between affiliates available at their offices and in some instances would file documentation. Staff suggested that KU prepare an index of documents related to these transactions but KU was opposed to this requirement. It was agreed that, initially, documentation would be made available, upon request, on a case-by-case basis.

KU expressed some concern about submitting bylaws of new businesses entered by the holding company and was not clear as to what other legal documents associated with these activities would be. It was agreed that there would be no ongoing requirement to submit other legal documents. As to the Articles of Incorporation and bylaws, it was agreed that both would be submitted for affiliated companies which are in businesses related to the electric industry or that would be doing business with KU. Only the

Articles of Incorporation would be filed for non-related businesses.

It was agreed that Agenda Items II B(1-3) had been covered in previous discussions and the information would be provided.

Agenda Item III was briefly discussed. Staff noted that much of the information contained in the periodic reports concerning the holding company and related affiliates would have to be filed on a test year basis in rate cases. Staff and KU concurred that there may be some difficulty in matching a fiscal test period with the calendar year filing requirements. KU indicated that a change in cost allocation factors during the test period might require an annualization type adjustment but KU would not necessarily need to prepare a cost allocation study for the 12 months of the test period. Staff disagreed on this point, however, it was pointed out by Staff that some of the information would be filed in rate cases at the company's discretion, but as usual would be subject to KU's justification for the basis of its position.

The conference was adjourned with the understanding that a draft of this memorandum would be circulated to all parties attending the informal conference for their review and concurrence with the content.

dcp

Attachments

November 18, 1988 - Informal Conference -
Case No. 10296 - KU - Holding Company

NAME	Representing
Chuck Buechel	Ky PSC
Michael R. Whitley	KUPO
Richard F. Naves	att'y KUC
Susan Mastin	PSC
Gary Forman	PSC
AARON GREENWELL	PSC
BOB HEWETT	K.U.
Paul E. Riedensief	AG
Elio El-Rouaibel	PSC
Gerald Wutcher	PSC
Leah Faulkner	PSC
Michael Alexander	PSC
Fred Davis	Kentucky utilities

ATTACHMENT B

**Case No. 10296
KU Holding Company
Informal Conference
November 18, 1988**

AGENDA

- I. Reports Specified in Order of October 6, 1988**
 - A. Review Attachment I**
 - B. Content**
 - C. Filing Dates**

- II. Additional Filing Requirements Implied in Order But Not Specified**
 - A. Reports Concerning Significant Transfers of Utility Assets, Business Ventures of Holding Company and Other Major Transactions**
 - 1. Contracts or Agreements**
 - 2. Studies performed in conjunction with these activities.**
 - 3. Other legal documents associated with these activities (i.e., articles of incorporation, by-laws, etc.)**
 - B. Proof That No Cross-Subsidization Has Occurred**
 - 1. Cost allocation methodologies for accounting**
 - 2. Direct cost assignment procedures**
 - 3. Documentation supporting the pricing of goods and services between affiliates and KU**

- III. Rate Case Filing Requirements**

ATTACHMENT B

Attachment I

**Case No. 10296
KU Holding Company
Informal Conference
November 18, 1988**

- A. Annual Holding Company and Subsidiary Financial Statements**
- B. Annual Consolidating Adjustments with Explanations**
- C. Annual Balance Sheets and Income Statements of Non-Consolidated Subsidiaries of Holding Company**
- D. All SEC Reports**
- E. Quarterly Reports of KU's Proportionate Share of Holding Company's:**
 - 1. Operating revenues**
 - 2. Operating and maintenance expenses**
 - 3. Employees**
- F. Annual Reports of:**
 - 1. The nature of intercompany transactions**
 - 2. Specific identification of major transactions**
 - 3. Basis for cost allocations**
 - 4. Basis for transfer pricing**
 - 5. Discussion of standard used for assets transferred (cost or market)**
 - 6. Allocation factors used to determine cost for assets transferred (if different from prior years)**
 - 7. Professional personnel transferred to holding company or subsidiaries with previous and present duties**

REPORT NO.: RS094050-01

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
CONSOLIDATING INCOME STATEMENT
PERIOD ENDING 03/31/88

PAGE 4
RUN DATE 04/08/88
RUN TIME 21.49.14

	ODP CO	CURRENT KU CO	MONTH ELIMINATIONS	THIS YEAR
OPERATING REVENUE	3,734,976.16	44,101,323.75	2,552,032.04	45,284,267.87
OPERATING EXPENSES				
FUEL	.00	15,898,707.34		15,898,707.34
PURCHASED POWER	2,425,685.04	888,246.63	2,425,685.04	888,246.63
INTERCHANGE	.00	.00		.00
OPERATIONS				
PRODUCTION	.00	1,015,487.97		1,015,487.97
OTHER POWER SUPPLY	3,189.04	102,395.76		105,584.80
TRANSMISSION	3,304.72	238,818.79	126,347.00	115,776.51
DISTRIBUTION	59,199.18	712,903.51		772,102.69
CUSTOMER ACCOUNTS	98,165.87	1,091,905.94		1,190,071.81
CUSTOMER SERVICE	13,752.88	214,432.21		228,185.09
SALES	4,395.77	90,455.93		94,851.70
ADMINISTRATIVE AND GENERAL	150,190.52	3,355,723.15		3,505,913.67
TOTAL OPERATIONS	332,197.98	6,822,123.26	126,347.00	7,027,974.24
MAINTENANCE				
PRODUCTION	.00	2,231,322.28		2,231,322.28
TRANSMISSION	11,678.15	221,319.21		232,997.36
DISTRIBUTION	68,848.33	976,293.81		1,045,142.14
ADMINISTRATIVE AND GENERAL	4,140.93	67,245.15		71,386.08
TOTAL MAINTENANCE	84,667.41	3,496,180.45		3,580,847.86
DEPRECIATION AND AMORTIZATION	189,200.26	4,112,970.78		4,302,171.04
INCOME TAXES				
CURRENT FEDERAL INCOME TAXES	66,405.00	2,876,948.00	.00	2,943,353.00
CURRENT STATE INCOME TAXES	.00	486,059.00	.00	486,059.00
DEFERRED FEDERAL INCOME TAXES	19,231.00	200,612.00		219,843.00
DEFERRED STATE INCOME TAXES	.00	211,847.00		211,847.00
INVESTMENT TAX CREDIT ADJ'S	-1,568.00	-13,965.00		-15,533.00
TOTAL INCOME TAXES	84,068.00	3,761,501.00	.00	3,845,569.00
TAXES OTHER THAN INCOME TAXES	131,800.85	752,435.64		884,236.49
TOTAL OPERATING EXPENSES	3,247,619.54	35,732,165.10	2,552,032.04	36,427,752.60
NET OPERATING INCOME	487,356.62	8,369,158.65	.00	8,856,515.27
OTHER INCOME AND DEDUCTIONS				
AFUDC - EQUITY	.00	2,700.00		2,700.00
OTHER INCOME AND DEDUCTIONS (NET)	24,252.56	1,126,800.47	509,217.33	641,835.70
TOTAL OTHER INCOME AND DEDUCTIONS	24,252.56	1,129,500.47	509,217.33	644,535.70
INCOME BEFORE INTEREST CHARGES	511,609.18	9,498,659.12	509,217.33	9,501,050.97
INTEREST CHARGES				
INTEREST ON LONG-TERM DEBT	.00	2,971,916.09		2,971,916.09
OTHER INTEREST CHARGES	320,426.43	47,952.32	318,034.58	50,344.17
AFUDC - BORROWED FUNDS	.00	-1,271.00		-1,271.00
TOTAL INTEREST CHARGES	320,426.43	3,018,597.41	318,034.58	3,020,989.26
NET INCOME	191,182.75	6,480,061.71	191,182.75	6,480,061.71
PREFERRED STOCK DIV REQUIREMENT	.00	510,399.99	.00	510,399.99
NET INCOME AVAILABLE FOR COMMON	191,182.75	5,969,661.72	191,182.75	5,969,661.72
EARNINGS/SH OF COMMON-CONSOL	.00	.16	.00	.16
EARNINGS/SH OF KU CO	.00	.15	.00	.15
EARNINGS/SH OF COMMON-SUBSIDIARY	.00	.01	.00	.01
AVG NUMBER OF SHARES OUTSTANDING	.00	37,817,878.00		37,817,878.00

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATING INCOME STATEMENT
 PERIOD ENDING 03/31/88

	ODP CO	Y E A R T O KU CO	D A T E ELIMINATIONS	T H I S Y E A R
OPERATING REVENUE	11,982,852.62	140,433,849.81	8,226,087.64	144,190,614.79
OPERATING EXPENSES				
FUEL	.00	51,286,002.72		51,286,002.72
PURCHASED POWER	7,847,046.64	3,318,607.43	7,847,046.64	3,318,607.43
INTERCHANGE	.00	.00		.00
OPERATIONS				
PRODUCTION	.00	2,726,382.95		2,726,382.95
OTHER POWER SUPPLY	9,570.00	291,435.00		301,005.00
TRANSMISSION	11,138.72	714,909.55	379,041.00	347,007.27
DISTRIBUTION	179,592.81	1,979,665.72		2,159,258.53
CUSTOMER ACCOUNTS	242,932.73	2,836,712.10		3,079,644.83
CUSTOMER SERVICE	35,281.39	566,760.04		602,041.43
SALES	15,634.59	253,971.24		269,605.83
ADMINISTRATIVE AND GENERAL	425,230.07	8,600,407.44		9,025,637.51
TOTAL OPERATIONS	919,380.31	17,970,244.04	379,041.00	18,510,583.35
MAINTENANCE				
PRODUCTION	.00	4,969,249.53		4,969,249.53
TRANSMISSION	42,459.58	757,169.24		799,628.82
DISTRIBUTION	213,308.23	2,801,556.03		3,014,864.26
ADMINISTRATIVE AND GENERAL	14,180.13	174,258.90		188,439.03
TOTAL MAINTENANCE	269,947.94	8,702,233.70		8,972,181.64
DEPRECIATION AND AMORTIZATION	567,600.78	12,401,840.80		12,969,441.58
INCOME TAXES				
CURRENT FEDERAL INCOME TAXES	294,876.00	10,137,980.00	.00	10,432,856.00
CURRENT STATE INCOME TAXES	.00	2,025,319.00	.00	2,025,319.00
DEFERRED FEDERAL INCOME TAXES	44,486.00	1,464,916.00		1,509,402.00
DEFERRED STATE INCOME TAXES	.00	613,814.00		613,814.00
INVESTMENT TAX CREDIT ADJ'S	-4,706.00	-41,889.00		-46,595.00
TOTAL INCOME TAXES	334,656.00	14,200,140.00	.00	14,534,796.00
TAXES OTHER THAN INCOME TAXES	421,761.81	2,652,715.51		3,074,477.32
TOTAL OPERATING EXPENSES	10,360,393.48	110,531,784.20	8,226,087.64	112,666,090.04
NET OPERATING INCOME	1,622,459.14	29,902,065.61	.00	31,524,524.75
OTHER INCOME AND DEDUCTIONS				
AFUDC - EQUITY	.00	6,942.00		6,942.00
OTHER INCOME AND DEDUCTIONS (NET)	65,486.29	3,476,329.87	1,680,732.53	1,861,083.63
TOTAL OTHER INCOME AND DEDUCTIONS	65,486.29	3,483,271.87	1,680,732.53	1,868,025.63
INCOME BEFORE INTEREST CHARGES	1,687,945.43	33,385,337.48	1,680,732.53	33,392,550.38
INTEREST CHARGES				
INTEREST ON LONG-TERM DEBT	.00	8,915,747.28		8,915,747.28
OTHER INTEREST CHARGES	961,316.64	330,503.19	954,103.74	337,716.09
AFUDC - BORROWED FUNDS	.00	-3,267.00		-3,267.00
TOTAL INTEREST CHARGES	961,316.64	9,242,983.47	954,103.74	9,250,196.37
NET INCOME	726,628.79	24,142,354.01	726,628.79	24,142,354.01
PREFERRED STOCK DIV REQUIREMENT	.00	1,554,266.67	.00	1,554,266.67
NET INCOME AVAILABLE FOR COMMON	726,628.79	22,588,087.34	726,628.79	22,588,087.34
EARNINGS/SH OF COMMON-CONSOL	.00	.60	.00	.60
EARNINGS/SH OF KU CO	.00	.56	.00	.56
EARNINGS/SH OF COMMON-SUBSIDIARY	.00	.04	.00	.04
AVG NUMBER OF SHARES OUTSTANDING	.00	37,817,878.00		37,817,878.00

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATING INCOME STATEMENT
 PERIOD ENDING 03/31/88

	ODP CO	T W E L V E M O N T H S K U C O	E N D E D E L I M I N A T I O N S	T H I S Y E A R
OPERATING REVENUE	39,422,033.04	544,438,237.93	28,015,840.26	555,844,430.71
OPERATING EXPENSES				
FUEL	.00	203,232,777.27		203,232,777.27
PURCHASED POWER	26,499,676.26	14,559,005.17	26,499,676.26	14,559,005.17
INTERCHANGE	.00	.00		.00
OPERATIONS				
PRODUCTION	.00	10,695,404.36		10,695,404.36
OTHER POWER SUPPLY	37,549.64	1,430,273.46		1,467,823.10
TRANSMISSION	71,425.05	2,854,143.37	1,516,164.00	1,409,404.42
DISTRIBUTION	638,553.17	7,925,733.16		8,564,286.33
CUSTOMER ACCOUNTS	1,045,191.69	11,438,072.81		12,503,264.50
CUSTOMER SERVICE	143,551.06	2,509,688.15		2,653,239.21
SALES	69,040.35	1,011,108.97		1,080,149.32
ADMINISTRATIVE AND GENERAL	1,631,616.96	32,967,041.13		34,598,658.09
TOTAL OPERATIONS	3,656,927.92	70,831,465.41	1,516,164.00	72,972,229.33
MAINTENANCE				
PRODUCTION	.00	18,475,400.92		18,475,400.92
TRANSMISSION	485,679.04	3,880,867.58		4,366,546.62
DISTRIBUTION	711,081.07	11,641,369.32		12,352,450.39
ADMINISTRATIVE AND GENERAL	46,527.50	649,475.82		696,003.32
TOTAL MAINTENANCE	1,243,287.61	34,647,113.64		35,890,401.25
DEPRECIATION AND AMORTIZATION	1,904,060.99	48,488,354.53		50,392,415.52
INCOME TAXES				
CURRENT FEDERAL INCOME TAXES	31,106.00	38,998,117.00	-1,071,952.00	40,101,175.00
CURRENT STATE INCOME TAXES	.00	7,441,125.00	-209,761.00	7,650,886.00
DEFERRED FEDERAL INCOME TAXES	385,951.00	7,472,042.00		7,857,993.00
DEFERRED STATE INCOME TAXES	.00	2,446,566.00		2,446,566.00
INVESTMENT TAX CREDIT ADJ'S	-12,702.00	-139,309.00		-152,011.00
TOTAL INCOME TAXES	404,355.00	56,218,541.00	-1,281,713.00	57,904,609.00
TAXES OTHER THAN INCOME TAXES	1,547,229.19	9,589,311.55		11,136,540.74
TOTAL OPERATING EXPENSES	35,255,536.97	437,566,568.57	26,734,127.26	446,087,978.28
NET OPERATING INCOME	4,166,496.07	106,871,669.36	1,281,713.00	109,756,452.43
OTHER INCOME AND DEDUCTIONS				
AFUDC - EQUITY	.00	63,541.00		63,541.00
OTHER INCOME AND DEDUCTIONS (NET)	225,158.37	3,353,600.16	3,084,503.14	494,255.39
TOTAL OTHER INCOME AND DEDUCTIONS	225,158.37	3,417,141.16	3,084,503.14	557,796.39
INCOME BEFORE INTEREST CHARGES	4,391,654.44	110,288,810.52	4,366,216.14	110,314,248.82
INTEREST CHARGES				
INTEREST ON LONG-TERM DEBT	503.80	35,663,009.53		35,663,513.33
OTHER INTEREST CHARGES	3,897,892.56	1,040,974.86	3,872,958.06	1,065,909.36
AFUDC - BORROWED FUNDS	.00	-29,342.00		-29,342.00
TOTAL INTEREST CHARGES	3,898,396.36	36,674,642.39	3,872,958.06	36,700,080.69
NET INCOME	493,258.08	73,614,168.13	493,258.08	73,614,168.13
PREFERRED STOCK DIV REQUIREMENT	.00	7,752,611.11	.00	7,752,611.11
NET INCOME AVAILABLE FOR COMMON	493,258.08	65,861,557.02	493,258.08	65,861,557.02
EARNINGS/SH OF COMMON-CONSOL	.00	1.74	.00	1.74
EARNINGS/SH OF KU CO	.00	1.70	.00	1.70
EARNINGS/SH OF COMMON-SUBSIDIARY	.00	.04	.00	.04
AVG NUMBER OF SHARES OUTSTANDING	.00	37,817,878.00		37,817,878.00

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATING INCOME STATEMENT
 PERIOD ENDING 03/31/88

	ODP CO	KU CO	ELIMINATIONS	THIS YEAR
OPERATING REVENUE	11,982,852.62	140,433,849.81	8,226,087.64	144,190,614.79
OPERATING EXPENSES				
FUEL	.00	51,286,002.72		51,286,002.72
PURCHASED POWER	7,847,046.64	3,318,607.43	7,847,046.64	3,318,607.43
INTERCHANGE	.00	.00		.00
OPERATIONS				
PRODUCTION	.00	2,726,382.95		2,726,382.95
OTHER POWER SUPPLY	9,570.00	291,435.00		301,005.00
TRANSMISSION	11,138.72	714,909.55	379,041.00	347,007.27
DISTRIBUTION	179,592.81	1,979,665.72		2,159,258.53
CUSTOMER ACCOUNTS	242,932.73	2,836,712.10		3,079,644.83
CUSTOMER SERVICE	35,281.39	566,760.04		602,041.43
SALES	15,634.59	253,971.24		269,605.83
ADMINISTRATIVE AND GENERAL	425,230.07	8,600,407.44		9,025,637.51
TOTAL OPERATIONS	919,380.31	17,970,244.04	379,041.00	18,510,583.35
MAINTENANCE				
PRODUCTION	.00	4,969,249.53		4,969,249.53
TRANSMISSION	42,459.58	757,169.24		799,628.82
DISTRIBUTION	213,308.23	2,801,556.03		3,014,864.26
ADMINISTRATIVE AND GENERAL	14,180.13	174,258.90		188,439.03
TOTAL MAINTENANCE	269,947.94	8,702,233.70		8,972,181.64
DEPRECIATION AND AMORTIZATION	567,600.78	12,401,840.80		12,969,441.58
INCOME TAXES				
CURRENT FEDERAL INCOME TAXES	294,876.00	10,137,980.00	.00	10,432,856.00
CURRENT STATE INCOME TAXES	.00	2,025,319.00	.00	2,025,319.00
DEFERRED FEDERAL INCOME TAXES	44,486.00	1,464,916.00		1,509,402.00
DEFERRED STATE INCOME TAXES	.00	613,814.00		613,814.00
INVESTMENT TAX CREDIT ADJ'S	-4,706.00	-41,889.00		-46,595.00
TOTAL INCOME TAXES	334,656.00	14,200,140.00	.00	14,534,796.00
TAXES OTHER THAN INCOME TAXES	421,761.81	2,652,715.51		3,074,477.32
TOTAL OPERATING EXPENSES	10,360,393.48	110,531,784.20	8,226,087.64	112,666,090.04
NET OPERATING INCOME	1,622,459.14	29,902,065.61	.00	31,524,524.75
OTHER INCOME AND DEDUCTIONS				
AFUDC - EQUITY	.00	6,942.00		6,942.00
OTHER INCOME AND DEDUCTIONS (NET)	65,486.29	3,476,329.87	1,680,732.53	1,861,083.63
TOTAL OTHER INCOME AND DEDUCTIONS	65,486.29	3,483,271.87	1,680,732.53	1,868,025.63
INCOME BEFORE INTEREST CHARGES	1,687,945.43	33,385,337.48	1,680,732.53	33,392,550.38
INTEREST CHARGES				
INTEREST ON LONG-TERM DEBT	.00	8,915,747.28		8,915,747.28
OTHER INTEREST CHARGES	961,316.64	330,503.19	954,103.74	337,716.09
AFUDC - BORROWED FUNDS	.00	-3,267.00		-3,267.00
TOTAL INTEREST CHARGES	961,316.64	9,242,983.47	954,103.74	9,250,196.37
NET INCOME	726,628.79	24,142,354.01	726,628.79	24,142,354.01
PREFERRED STOCK DIV REQUIREMENT	.00	1,554,266.67	.00	1,554,266.67
NET INCOME AVAILABLE FOR COMMON	726,628.79	22,588,087.34	726,628.79	22,588,087.34
EARNINGS/SH OF COMMON-CONSOL	.00	.60	.00	.60
EARNINGS/SH OF KU CO	.00	.56	.00	.56
EARNINGS/SH OF COMMON-SUBSIDIARY	.00	.04	.00	.04
AVG NUMBER OF SHARES OUTSTANDING	.00	37,817,878.00		37,817,878.00

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

March 31, 1988

Twelve Months
Ended

INCOME STATEMENT ELIMINATIONS

	Current Month	Year to Date	Twelve Months Ended
<u>Operating Revenues</u>			
<u>Purchased Power</u>			
KU Co. to ODP Co.	2,425,685.04	7,847,046.64	26,499,676.26
<u>Transmission Line Rental</u>			
ODP Co. from KU Co.	126,347.00	379,041.00	1,516,164.00
Total	2,552,032.04	8,226,087.64	28,015,840.26
<u>Interest Income</u>			
KU Co. from ODP Co.	318,034.58	954,103.74	3,872,958.06
ODP Co. from KU Co.	-	-	-
Total	318,034.58	954,103.74	3,872,958.06
<u>Operating Expenses</u>			
KU to ODP Co.	126,347.00	379,041.00	1,516,164.00
<u>Interest Expenses</u>			
ODP Co. to KU Co.	318,034.58	954,103.74	3,872,958.06
KU Co. to ODP Co.	-	-	-
Total	318,034.58	954,103.74	3,872,958.06
<u>Income Taxes</u>			
Federal	-	-	1,071,952.00
State	-	-	209,761.00
Total	-	-	1,281,713.00

UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS

Balance Beginning of Period	7,449,387.32	6,913,941.28	7,147,311.99
Equity in Earnings for Period	191,182.75	726,628.79	493,258.08
BALANCE END OF PERIOD	7,640,570.07	7,640,570.07	7,640,570.07

INCOME TAXES

<u>Above the Line</u>			
Federal - Current	2,943,353.00	10,432,856.00	40,101,175.00
- Deferred	219,863.00	1,509,402.00	7,857,993.00
Sub-total	3,163,196.00	11,942,258.00	47,959,168.00
State - Current	486,059.00	2,025,319.00	7,650,886.00
- Deferred	211,867.00	613,814.00	2,446,566.00
Sub-total	697,906.00	2,639,133.00	10,097,452.00
Investment Tax Credit Adjustments ..	(15,533.00)	(46,505.00)	(152,011.00)
Total Above the Line	3,845,569.00	14,534,796.00	57,904,609.00
<u>Below the Line</u>			
Federal - Current	(238,325.00)	193,785.00	(3,399,577.00)
- Deferred	658,467.00	413,768.00	(105,668.00)
Sub-total	220,122.00	607,553.00	(3,505,245.00)
State - Current	51,451.00	142,367.00	(531,018.00)
- Deferred	(2,062.00)	(5,484.00)	(18,997.00)
Sub-total	49,389.00	136,883.00	(550,015.00)
Investment Tax Credit	(336,683.00)	(1,010,052.00)	(4,010,317.00)
Total Below the Line	(67,174.00)	(265,616.00)	(8,065,577.00)
TOTAL INCOME TAXES	3,778,395.00	14,269,180.00	49,839,032.00

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATING BALANCE SHEET
 AS OF 03/31/88

ASSETS	ODP CO	KU CO	ELIMINATIONS	THIS YEAR	LAST YEAR
UTILITY PLANT IN SERVICE	65,058,373.48	1,669,904,313.40		1,734,962,686.88	1,699,601,041.85
LESS: ACCUMULATED PROV FOR DEPR	15,056,837.73	570,347,694.98		585,404,532.71	542,529,659.18
NET UTILITY PLANT IN SERVICE	50,001,535.75	1,099,556,618.42		1,149,558,154.17	1,157,071,382.67
CONSTRUCTION WORK IN PROGRESS	449,275.15	10,115,205.84		10,564,480.99	14,074,746.94
TOTAL NET UTILITY PLANT	50,450,810.90	1,109,671,824.26		1,160,122,635.16	1,171,146,129.61
NONUTILITY PLANT	.00	340,648.57		340,648.57	332,458.51
LESS: ACCUMULATED PROV FOR DEPR	.00	51,391.48		51,391.48	51,391.48
NET NONUTILITY PLANT	.00	289,257.09		289,257.09	281,067.03
INVESTMENTS IN SUBSIDIARY COMPANIES	.00	41,623,956.92	39,482,604.66	2,141,352.26	1,820,773.88
OTHER INVESTMENTS	1,500.00	1,297,881.13		1,299,381.13	363,180.50
SPECIAL FUNDS	.00	11,004,874.55		11,004,874.55	9,253,110.93
NET INVESTMENTS AND FUNDS	1,500.00	54,215,969.69	39,482,604.66	14,734,865.03	11,718,132.34
CASH	334,080.74	614,720.11		948,800.85	5,504,170.50
SPECIAL DEPOSITS	10,686.10	163,242.25		173,928.35	216,368.41
WORKING FUNDS	6,200.00	66,699.00		72,899.00	63,354.00
TEMPORARY CASH INVESTMENTS	1,900,000.00	31,100,000.00		33,000,000.00	33,750,000.00
TOTAL CASH	2,250,966.84	31,944,661.36		34,195,628.20	39,533,892.91
CUSTOMER RECEIVABLES:	3,319,285.24	26,308,861.40		29,628,146.64	23,117,523.69
MISCELLANEOUS RECEIVABLES	105,209.31	7,441,144.33		7,546,353.64	13,680,906.60
LESS: ACCML PROV FOR UNCOLL ACCTS	86,100.00	6,731,900.00		6,818,000.00	6,771,049.58
NET CUST AND MISC RECEIVABLES	3,338,394.55	27,018,105.73		30,356,500.28	30,027,380.71
RECEIVABLES FROM ASSOC COMPANIES	.00	3,308,819.57	3,308,819.57	.00	.00
NET RECEIVABLES	3,338,394.55	30,326,925.30	3,308,819.57	30,356,500.28	30,027,380.71
FUEL STOCK	.00	38,939,332.33		38,939,332.33	34,005,824.26
MATERIALS AND SUPPLIES	463,289.77	7,033,655.15		7,496,944.92	7,496,762.46
UNDISTRIBUTED STORES EXPENSE	171,241.51	1,544,627.14		1,715,868.65	1,674,629.50
TOTAL INVENTORY	634,531.28	47,517,614.62		48,152,145.90	43,177,216.22
PREPAYMENTS	2,343.75	1,469,641.12		1,471,984.87	1,410,463.31
INTEREST AND DIVIDENDS RECEIVABLE	2,489.59	313,088.47		315,578.06	311,912.97
ACCRUED UTILITY REVENUES	.00	1,627,084.02		1,627,084.02	5,918,180.22
TOTAL CURRENT ASSETS	6,228,726.01	113,199,014.89	3,308,819.57	116,118,921.33	120,379,046.34
UNAMORTIZED DEBT EXPENSE	.00	2,291,187.92		2,291,187.92	2,387,743.75
UNRECOVERED PLANT & REGULATORY COST	.00	.00		.00	11,574,514.97
PRELIMINARY SURVEY	3,475.72	78,391.42		81,867.14	63,987.17
CLEARING ACCOUNTS	31,102.67	693,288.23		724,390.90	623,986.00
JOB WORK	.00	74,660.24		74,660.24	16,520.41
MISCELLANEOUS DEFERRED DEBITS	.00	26,754,202.63		26,754,202.63	11,407,070.71
RESEARCH AND DEVELOPMENT EXPENSES	.00	.00		.00	.00
UNAMORTIZED LOSS ON REAQUIRED DEBT	.00	1,643,220.12		1,643,220.12	1,741,140.84
ACCUMULATED DEFERRED INCOME TAXES	564,143.00	7,472,105.22		8,036,248.22	3,944,199.22
TOTAL DEFERRED DEBITS	598,721.39	39,007,055.78		39,605,777.17	31,759,163.07
TOTAL ASSETS	57,279,758.30	1,316,093,864.62	42,791,424.23	1,330,582,198.69	1,335,002,471.36

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATING BALANCE SHEET
 AS OF 03/31/88

LIABILITIES	ODP CO	KU CO	ELIMINATIONS	THIS YEAR	LAST YEAR
COMMON STOCK	1,504,825.00	308,139,977.56	1,504,825.00	308,139,977.56	189,089,390.00
PREMIUM ON COMMON STOCK	.00	.00		.00	119,050,587.56
PREMIUM ON PREFERRED STOCK	.00	43,980.00		43,980.00	43,980.00
GAIN ON RESALE/CANCEL OF REACQD STK	.00	.00		.00	.00
CAPITAL STOCK EXPENSE	.00	-321,288.87		-321,288.87	.00
PAID-IN CAPITAL	37,209.59	.00	37,209.59	.00	.00
RETAINED EARNINGS	7,640,570.07	163,206,785.18		170,847,355.25	157,155,167.61
UNAPPROPRIATED UNDIST SUBSDY ERNGS	.00	8,486,122.33	7,640,570.07	845,552.26	524,973.88
TOTAL COMMON STOCK EQUITY	9,182,604.66	479,555,576.20	9,182,604.66	479,555,576.20	465,864,099.05
PREFERRED STOCK	.00	79,200,000.00		79,200,000.00	107,800,000.00
TOTAL PREFERRED STOCK	.00	79,200,000.00		79,200,000.00	107,800,000.00
BONDS	.00	396,500,000.00		396,500,000.00	396,500,000.00
ADVANCES FROM ASSOCIATED COMPANIES	30,300,000.00	.00	30,300,000.00	.00	.00
OTHER LONG-TERM DEBT	.00	.00		.00	35,870.80
UNAMORTIZED PREM ON LONG-TERM DEBT	.00	936,805.53		936,805.53	996,435.93
TOTAL LONG-TERM DEBT	30,300,000.00	397,436,805.53	30,300,000.00	397,436,805.53	397,532,306.73
TOTAL CAPITALIZATION	39,482,604.66	956,192,381.73	39,482,604.66	956,192,381.73	971,196,405.78
ACCUMULATED PROVISION FOR INSURANCE	.00	803,517.07		803,517.07	1,043,078.07
TOTAL OTHER NONCURRENT LIAB	.00	803,517.07		803,517.07	1,043,078.07
NOTES PAYABLE	.00	.00		.00	.00
ACCOUNTS PAYABLE	54,478.11	19,199,086.85		19,253,564.96	19,565,338.62
PAYABLES TO ASSOCIATED COMPANIES	3,308,819.57	.00	3,308,819.57	.00	.00
CUSTOMER DEPOSITS	436,253.39	7,880,112.85		8,316,366.24	7,805,946.66
TAXES ACCRUED	626,234.31	16,986,211.82		17,612,446.13	18,150,610.40
INTEREST ACCRUED ON LONG-TERM DEBT	.00	4,456,979.19		4,456,979.19	4,457,349.16
OTHER INTEREST ACCRUED	66,251.00	2,504,905.21		2,571,156.21	2,156,742.63
DIVIDENDS DECLARED	.00	.00		.00	.00
TAX COLLECTIONS PAYABLE	54,817.12	1,800,887.06		1,855,704.18	2,224,594.59
OTHER CURRENT AND ACCRUED LIAB	754,504.45	11,699,960.70		12,454,465.15	11,577,132.19
TOTAL CURRENT LIABILITIES	5,301,357.95	54,528,143.68	3,308,819.57	66,520,682.06	65,937,714.25
CUSTOMERS ADVANCES FOR CONSTRUCTION	91,726.69	1,538,457.60		1,630,184.29	1,778,295.68
ACCML DEFERRED INV TAX CREDITS	2,939,046.00	63,686,071.00		66,625,117.00	70,819,277.00
OTHER DEFERRED CREDITS	1,000.00	2,681,722.54		2,682,722.54	2,372,049.58
ACCUMULATED DEFERRED INCOME TAXES	9,464,023.00	226,663,571.00		236,127,594.00	221,855,651.00
TOTAL DEFERRED CREDITS	12,495,795.69	294,569,822.14		307,065,617.83	296,825,273.26
TOTAL LIABILITIES	57,279,758.30	1,316,093,864.62	42,791,424.23	1,330,582,198.69	1,335,002,471.36

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

March 31, 1988

BALANCE SHEET ELIMINATIONS

	<u>Debits</u>	<u>Credits</u>	<u>Totals</u>
<u>Investments of KU in ODP</u>			
ODP Co. Common Stock	1,542,034.59		39,482,604.66
9.25% Note - 11-01-88	500,000.00		
10.75% Note - 07-30-89	3,250,000.00		
12.97% Note - 11-30-89	900,000.00		
12.97% Note - 12-31-89	1,200,000.00		
12.97% Note - 12-31-90	4,000,000.00		
12.97% Note - 09-24-91	4,500,000.00		
12.97% Note - 12-31-91	1,400,000.00		
12.97% Note - 01-08-92	3,200,000.00		
12.97% Note - 06-30-92	1,300,000.00		
12.97% Note - 07-14-92	1,200,000.00		
12.92% Note - 12-30-92	1,000,000.00		
12.44% Note - 06-30-93	2,750,000.00		
13.38% Note - 11-20-94	1,000,000.00		
13.00% Note - 12-31-94	4,000,000.00		
ODP Co. Advance	100,000.00		
Equity in Earnings of Subsidiary	7,640,570.07		
Accounts Receivable - Assoc. Co.			3,308,819.57
KU Co. from ODP Co.	3,308,819.57		
ODP Co. from KU Co.			
TOTAL DEBITS			42,791,424.23
Capital Stock - Common			1,504,825.00
ODP Co.		1,504,825.00	
Capital Surplus			37,209.59
ODP Co.		37,209.59	
Equity in Earnings of Subsidiary		7,640,570.07	7,640,570.07
<u>Notes and Advances from KU to ODP</u>			
9.25% Note - 11-01-88		500,000.00	
10.75% Note - 07-30-89		3,250,000.00	
12.97% Note - 11-30-89		900,000.00	
12.97% Note - 12-31-89		1,200,000.00	
12.97% Note - 12-31-90		4,000,000.00	
12.97% Note - 09-24-91		4,500,000.00	
12.97% Note - 12-31-91		1,400,000.00	
12.97% Note - 01-08-92		3,200,000.00	
12.97% Note - 06-30-92		1,300,000.00	
12.97% Note - 07-14-92		1,200,000.00	
12.92% Note - 12-30-92		1,000,000.00	
12.44% Note - 06-30-93		2,750,000.00	
13.38% Note - 11-20-94		1,000,000.00	
13.00% Note - 12-31-94		4,000,000.00	
ODP Co. Advance		100,000.00	
Accounts Payable - Assoc. Co.			3,308,819.57
KU Co. to ODP Co.			
ODP Co. to KU Co.	3,308,819.57		
TOTAL CREDITS			42,791,424.23

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report under Section 13 or 15(d)
of The Securities Exchange Act of 1934.

For the quarter ended March 31, 1988

Commission file number 1-3464

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky(State or other jurisdiction of
incorporation or organization)61-0247570(I.R.S. Employer
Identification No.)One Quality Street, Lexington, Kentucky
(Address of principal executive offices)40507
(Zip Code)

Registrant's telephone number, including area code 606-255-1461

Not ApplicableFormer name, former address and former fiscal year, if changed
since last report

Indicate by check mark whether the Registrant (1) has 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 Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Number of shares of Common Stock outstanding at April 30, 1988: 37,817,878 shares.

PART I. FINANCIAL INFORMATION
 KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

	For the Three Months Ended March 31,	
	1988	1987
	(in thousands except per share amounts)	
Operating Revenues.	<u>\$144,190</u>	<u>\$141,591</u>
Operating Expenses and Taxes:		
Fuel, principally coal, used in generation.	51,286	43,382
Electric power purchased	3,319	5,327
Other operating expenses.	18,511	17,433
Maintenance	8,972	10,244
Depreciation.	12,969	12,479
Federal & state income taxes.	14,535	17,299
Other taxes	<u>3,074</u>	<u>3,057</u>
	<u>112,666</u>	<u>109,221</u>
Net Operating Income.	31,524	32,370
Other Income and Deductions	<u>1,868</u>	<u>1,111</u>
Income Before Interest Charges.	33,392	33,481
Interest Charges.	<u>9,250</u>	<u>9,302</u>
Net Income.	24,142	24,179
Preferred Stock Dividend Requirements . .	<u>1,554</u>	<u>2,461</u>
Net Income Applicable to Common Stock . .	<u>\$ 22,588</u>	<u>\$ 21,718</u>
Average Common Shares Outstanding	37,818	37,818
Earnings Per Average Common Share	<u>\$.60</u>	<u>\$.57</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)**

	For the Three Months Ended March 31,	
	1988	1987
	(in thousands)	
Cash Flows From Operating Activities:		
Net Income	\$ 24,142	\$ 24,179
Items not requiring (providing) cash currently		
Depreciation	12,969	12,479
Deferred income taxes and investment tax credit--net.	1,475	2,427
Change in fuel inventory	(3,274)	(10,115)
Change in accounts receivable	3,500	2,604
Change in accounts payable	1,714	(436)
Change in accrued taxes.	10,404	16,536
Coal contract termination payment.	(14,500)	-
Other--net	<u>(5,053)</u>	<u>(3,628)</u>
Net Cash Provided By Operating Activities	<u>31,377</u>	<u>44,046</u>
Cash Flows From Investing Activities:		
Construction expenditures	<u>(8,795)</u>	<u>(9,992)</u>
Net Cash Used By Investing Activities.	<u>(8,795)</u>	<u>(9,992)</u>
Cash Flows From Financing Activities:		
Retirement of long-term debt	-	(35)
Retirement of preferred stock	(1,600)	(1,600)
Payment of dividends	<u>(14,235)</u>	<u>(14,386)</u>
Net Cash Used By Financing Activities.	<u>(15,835)</u>	<u>(16,021)</u>
Net Increase In Cash and Temporary Cash Investments	<u>\$ 6,747</u>	<u>\$ 18,033</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	As of March 31, 1988	As of December 31, 1987
	(in thousands)	
ASSETS		
Utility Plant:		
Plant in service, at cost	\$1,734,963	\$1,729,943
Less accumulated depreciation	<u>585,405</u>	<u>571,835</u>
	1,149,558	1,158,108
Construction work in progress	<u>10,564</u>	<u>6,933</u>
	1,160,122	1,165,041
Less accumulated deferred income taxes . . .	<u>232,526</u>	<u>229,240</u>
	<u>927,596</u>	<u>935,801</u>
Current Assets:		
Cash	1,196	697
Temporary cash investments, at cost which approximates market	33,000	26,752
Accounts receivable	32,374	35,874
Fuel, principally coal, at average cost . . .	38,939	35,665
Plant materials and operating supplies, at average cost	9,213	8,803
Prepaid expense and other	<u>1,472</u>	<u>1,271</u>
	<u>116,194</u>	<u>109,062</u>
Investments, Deferred and Other Assets	<u>54,266</u>	<u>37,128</u>
	<u>\$1,098,056</u>	<u>\$1,081,991</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	\$ 479,556	\$ 469,648
Preferred stock	40,000	40,000
Preferred stock with mandatory redemption . .	36,400	37,200
Long-term debt	<u>397,437</u>	<u>397,452</u>
	<u>953,393</u>	<u>944,300</u>
Current Liabilities:		
Preferred stock due within one year	2,800	3,600
Accounts payable	19,254	17,540
Customers' deposits	8,316	8,477
Accrued taxes	17,612	7,208
Accrued interest	7,028	12,238
Accrued payroll and vacation	5,185	5,992
Other	<u>9,125</u>	<u>6,977</u>
	<u>69,320</u>	<u>62,032</u>
Deferred Credits:		
Accumulated deferred investment tax credits .	66,625	67,682
Other	<u>8,718</u>	<u>7,977</u>
	<u>75,343</u>	<u>75,659</u>
	<u>\$1,098,056</u>	<u>\$1,081,991</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. PRESENTATION OF CONDENSED INFORMATION

Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information has been condensed and certain footnote disclosures have been omitted, which are normally included in financial statements prepared in accordance with generally accepted accounting principles.

These financial statements should be read in conjunction with the financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 1987.

In the opinion of management, the information furnished herein reflects all adjustments which are necessary to a fair statement of the results of the periods shown and the disclosures which have been made are adequate to make the information not misleading, subject to the effects, if any, of the final resolution of the regulatory matters and certain litigation discussed in Note 2.

2. RATE MATTERS AND CERTAIN LITIGATION

Regulatory Commission Proceedings

The Company's Kentucky retail fuel adjustment clause operates to reflect changes in fuel costs in billings to customers and is designed to conform to a general regulation prescribed by the Kentucky Public Service Commission (PSC) for all electric utilities in Kentucky subject to its jurisdiction.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
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(Unaudited)

The PSC's regulation provides for periodic hearings held at six-month intervals to review past adjustments under the clause and make allowances, in the form of temporary decreases in rates, for any past adjustments found not justified. In addition, every two years past operations under the clause are reviewed, expense components found improper may be disallowed and the fuel clause base is re-indexed. The practice of the PSC has been to combine hearings for review of each fourth six-month period with the then concluded two-year period.

In January 1983, the PSC commenced combined hearings to review the two-year period ended October 31, 1982 and the six-month period ended October 31, 1982 and to re-index the retail fuel clause base. In connection with that proceeding, the PSC has under investigation the Company's fuel procurement practices and costs relating to coal supply arrangements with two coal suppliers. The PSC has entered interim orders in subsequent fuel clause hearings stating that final orders will not be issued until the investigation is concluded. An intervenor in the proceeding is requesting that the PSC order refunds in a substantial amount for the period 1983 through 1986 and thereafter, allegedly resulting from the Company's overpayment of fuel costs under the two coal supply agreements. The PSC has stated that the investigation is to be a broad review of the Company's fuel procurement practices, and that all

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

fuel clause revenues collected since November 1, 1980, are subject to refund. A consultant was selected by the PSC in October 1987, and is currently conducting an investigation. Hearings are expected to commence after the consultant's investigation is completed.

In May 1984, certain of the Company's wholesale municipal customers filed a complaint with the Federal Energy Regulatory Commission (FERC) alleging imprudence by the Company in its coal procurement practices and policies. The complainants are seeking refunds of that portion, if any, of fuel costs passed through the Company's wholesale fuel adjustment clause which is found not to have been just, reasonable and prudently incurred. The Company has filed a response with the FERC specifically denying all allegations of the complaint. The complainants have alleged that the Company incurred approximately \$96 million through mid-1984 in imprudent fuel costs under the two coal supply agreements which are also the subject of the PSC investigation. Of that sum, the portion of alleged imprudent fuel costs associated with the Company's wholesale customers, including the complainants, is approximately \$18 million. The complainants, in rebuttal evidence submitted in April 1986, asserted that the total alleged imprudent fuel costs could be increased by approximately \$24 million. The FERC staff has submitted testimony which supports certain of the complainants'

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

allegations. The staff pre-filed testimony alleges that, with respect to one of the coal supply agreements, the Company incurred imprudent fuel costs of at least \$28 million and as much as \$65 million through mid-1984. The staff submitted no testimony alleging imprudence with respect to the other coal supply agreement. Hearings before the FERC concluded in October 1986, and the issues were briefed in early 1987. The matter is awaiting initial decision. The Company will continue to vigorously defend the matter.

Fuel clause revenues associated with fuel expense calculations related to the two coal supply agreements have been, for the periods under review, and continue to be, substantial in amounts. Although no evaluation can be made presently as to the outcome of the above matters, the Company believes that its operations under the retail and wholesale fuel adjustment clauses during the periods under review have been in compliance with the applicable state and federal regulations.

Coal Contract Litigation

In June 1984, the Company filed an action in the Fayette Circuit Court seeking a price adjustment under, or in the alternative termination of, the coal supply contract for Ghent Unit 3. In March 1985, the defendant filed a counterclaim against the Company seeking damages and specific performance

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

based on the Company's alleged wrongful refusal to accept deliveries of tonnage in the quantities or at the price provided in the contract. The defendant is claiming damages in specified amounts of up to approximately \$22 million, additional and continuing unspecified damages, interest, and alleged punitive damages of not less than \$25 million. The Court has entered an order allowing the Company to deduct from the defendant's invoiced price and to deposit with the Court \$11.30 per ton for each ton of coal delivered under the coal supply contract since April 1985. Funds deposited will be held by the Court until a final decision has been rendered. To the extent certain funds have been withdrawn by the defendant, an irrevocable letter of credit will be held as security. The order also stated that any revisions in base price ordered as a result of the initial complaint shall be effective as of July 1, 1984. In October 1987, the Company filed a supplemental complaint seeking further adjustment of the contract price provisions effective July 1, 1987. The trial concluded in March 1988. The parties are to file all briefs by August 1, 1988, and the matter will then await initial decision. The Company believes it has performed its obligations under the contract and will continue to vigorously defend against the counterclaim.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. COAL SUPPLY

In January 1987, Coal Ridge Fuel, Inc. and River Processing, Inc. filed a Complaint in the Perry Circuit Court at Hazard, Kentucky, against the Company under a coal supply agreement entered into with the Company on December 22, 1983. In their Complaint, the plaintiffs are seeking damages resulting from allegedly improper reductions to the base price per ton initiated by the Company, which became effective January 1, 1986 and January 1, 1987, and for the Company's refusal to accept certain required tonnage under the agreement due to allegedly improper claims by the Company of force majeure during 1984, 1985, and 1986. The claimed damages are not specified as to amount. In February 1987, the Company filed an Answer denying the allegations of the Complaint and stating that its actions were in accordance with the terms of the agreement.

In March 1988, the Company reached a settlement with the plaintiffs. The Company paid \$14.5 million to the plaintiffs as consideration for terminating the coal supply agreement, which was to expire on December 31, 1991, and the plaintiffs dismissed with prejudice their complaint against the Company. The Company has recorded the payment as a deferred asset, and has filed applications with the PSC and FERC requesting approval to recover the payment through the Company's fuel adjustment clause in

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

future periods by amortizing the deferred asset to fuel inventory through December 1991, the date the coal supply agreement would have terminated. The Company believes that it will be allowed to recover the payment through its fuel adjustment clause.

4. CONSOLIDATED STATEMENTS OF CASH FLOWS

Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" (SFAS No. 95) requires replacement of the Statement of Changes in Financial Position with the Statement of Cash Flows. The Company has adopted SFAS No. 95, and for purposes of this statement considers temporary cash investments, generally in the form of certificates of deposit and repurchase agreements with a maturity of three months or less, to be cash equivalents. The following supplemental disclosures are required by SFAS No. 95:

	<u>For the Quarter Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>1988</u>	<u>1987</u>
	(in thousands)	
Cash paid for:		
Interest on long-term debt	\$ 14,113.	\$ 13,572
Federal and state income taxes	\$ 3,200.	\$

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION

For the Quarter Ended
March 31, March 31,
1988 1987
(in millions except
per share amounts)

Analysis of Results of Operation

OPERATING REVENUES

Sales to ultimate consumers	\$ 130	\$ 132
Sales for resale and other	<u>14</u>	<u>10</u>
	<u>144</u>	<u>142</u>

LESS EXPENSES AND TAXES

Fuel and purchased power	55	49
Employee wages, salaries and benefits	15	13
Other expenses, primarily maintenance, supplies and services, net	14	17
Depreciation	<u>13</u>	<u>13</u>
	<u>97</u>	<u>92</u>

INCOME BEFORE INTEREST AND TAXES	47	50
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Interest	<u>9</u>	<u>9</u>
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INCOME BEFORE TAXES	38	41
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Federal and state income taxes	<u>14</u>	<u>17</u>
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NET INCOME	<u>\$ 24</u>	<u>\$ 24</u>
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EARNINGS PER AVERAGE COMMON SHARE	<u>\$.60</u>	<u>\$.57</u>
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KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION

Discussion of Financial Condition and Results of Operation

Operating revenues for the first quarter of 1988 increased by \$2.6 million (1.8%) when compared to the first quarter of 1987. This change was primarily the result of a 13.1% increase in kilowatt-hour sales, of which off-system sales accounted for 34.9% of the increase. The remaining increases in kilowatt-hour sales were primarily due to the effects of colder weather during the first quarter of 1988 when compared to the corresponding period in 1987. The revenue impact of the sales increase was largely offset by a reduction in fuel clause revenues and the effects of retail and wholesale rate reductions made in order to pass along savings resulting from the Tax Reform Act of 1986.

Fuel and purchased power expenses increased \$5.9 million (12.1%) for the three month period ended March 31, 1988, when compared to the corresponding period in 1987. Fuel expense increased \$7.9 million (18.2%), while purchased power expense decreased \$2.0 million (37.7%). The increase in fuel expense was due to a 19.9% increase in tons of coal consumed, offset partially by a 1.1% decrease in the price per ton of coal consumed. The additional coal consumption resulted from the above mentioned increase in kilowatt-hour sales. The decrease in purchased power expense resulted from a 58.2% reduction in kilowatt-hours purchased.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION

Federal and state income taxes decreased \$2.8 million for the first quarter of 1988 compared with the first quarter of 1987. The decrease is primarily attributable to lower corporate income tax rates resulting from the application of the Tax Reform Act of 1986.

Earnings per average common share increased \$.03 for the first quarter of 1988, when compared to the corresponding period of 1987. The increase was due to the decrease in the preferred stock dividend requirement.

PART II. OTHER INFORMATION
KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENTUCKY UTILITIES COMPANY
(Registrant)

Date May 9, 1988

/s/ John T. Newton
John T. Newton
Chairman and President

Date May 9, 1988

/s/ Fred Davis
Fred Davis
Controller

PERIODIC REPORTS

<u>REFERENCE ATTACHMENT I ITEM</u>	<u>REPORT</u>	<u>DUE DATE</u>	<u>FILE WITH COMMISSION</u>
A, B, & E	Consolidating Reports With Eliminations		File with quarterly and annual SEC reports
	Consolidated Annual Report		File with annual SEC reports
C	Non Consolidated Subsidiaries		File with annual SEC reports
D	10-K	90 days after end of fiscal year	30 days after due date
D	10-Q	45 days after end of first three quarters	30 days after due date
D	8-K	10 days after occurrence of reportable event	30 days after due date
F	To Be Discussed		

PSC CASE NO. 10296
 KU HOLDING COMPANY

"Significant Transfers of Utility Assets"

KU shall report to the PSC any significant transfer of utility assets between KU and any nonutility affiliate provided that the amount of any such transfer exceeds the minimum reporting value stated below for each account.

<u>Accounts</u>	<u>Minimum Reporting Value</u>
Other Property and Investments	\$250,000
Current and Accrual Assets	250,000
General Plant	250,000
Distribution Plant	250,000
Transmission Plant	250,000
Production Plant	500,000

Transfers or sales of nonutility assets, payment of dividends and normal recurring transactions are expressly excluded from this reporting requirement.

Transactions of values below the above criteria will be grouped and reported along with an itemized list of significant items on an annual basis, according to specific categories (e.g., land, transportation equipment, etc.).

The above definition of significant transfers will be subject to review and modification by agreement of KU and the PSC in the event the extent of reporting of such transactions becomes burdensome for KU or is deemed unnecessary by the Commission.