COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.	)	
COMPLAINANT	)	**CASE NO. 2018-00034**
v.	)	
KENTUCKY UTILITIES COMPANY, AND LOUISVILLE GAS AND ELECTRIC COMPANY	)	
DEFENDANTS	)	

DIRECT TESTIMONY ON REHEARING OF
KENT W. BLAKE
CHIEF FINANCIAL OFFICER
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Filed: April 6, 2018

INTRODUCTION

Q. Please state your name, position, and business address.

A. My name is Kent W. Blake. I am the Chief Financial Officer for Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") and an employee of LG&E and KU Services Company, which provides services to LG&E and KU (collectively "Companies"). My business address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement of my education and work experience is attached to this testimony as Appendix A. In my role, I have oversight responsibility for accounting, financial and regulatory reporting, tax, payroll, corporate finance, cash management, risk management, financial planning, forecasting and budgeting, audit services, supply chain, information technology, and state regulation and rates.

Q. Have you previously testified in this proceeding?

A. Yes. I filed written testimony on January 29, 2018, which presented and described in detail the support for the *Offer and Acceptance of Satisfaction*.

Q. What is the purpose of your testimony?

A. Pursuant to the Public Service Commission's ("Commission") Order of March 28, 2018, in which the Commission granted rehearing on limited issues, and the Commission's Order of March 30, 2018, which expanded the scope of rehearing to any relevant issue related to the Tax Cuts and Jobs Act ("TCJA"), my testimony describes the impact of the TCJA on the Companies and the Companies' efforts to return the net benefits of the TCJA to customers. Particularly, I will discuss the Companies' calculation of the TCJA Surcredit proposed in the *Offer and Acceptance* *of Satisfaction*, including the capitalization update directly attributable to the TCJA, the updated interest rates, and other changes to capitalization associated with the period in which the TCJA and the associated TCJA Surcredit are in effect. Then, I will discuss the amortization periods used for excess deferred taxes associated with the TCJA. I will also explain other negative impacts of the TCJA that were not factored into the calculation of the TCJA Surcredit, further showing that the TCJA Surcredit proposed in the *Offer and Acceptance of Satisfaction* represents a reasonable estimate of the total impact of the TCJA.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring Exhibit KWB-1, the re-executed signature pages to the *Offer and Acceptance of Satisfaction*; Exhibit KWB-2, the support for the increase in capitalization due to cash taxes paid; Exhibit KWB-3, the calculation of the rate of return adjusted for income taxes reflecting the impact of the Commission assessment and uncollectible rates; Exhibit KWB-4, which compares the market interest rates used to calculate the TCJA Surcredit with those used by the Commission in its March 20, 2018 Order and also provides a comparison using an update to current interest rates; and Exhibit KWB-5, a review of the impact of the TCJA on the most heavily weighted credit rating ratio used by Moody’s.

BACKGROUND

Q. Please briefly describe the *Offer and Acceptance of Satisfaction*.

A. On December 21, 2017, Kentucky Industrial Utility Customers, Inc. (“KIUC”) filed a formal complaint against the Companies alleging that the Companies’ rates were no longer fair, just, and reasonable due to the enactment of the TCJA, which reduced the federal corporate tax rate from 35 percent to 21 percent. In an effort to expedite the return of net benefits from the TCJA to their customers without the delay caused by filing a full base rate case to address the issues, the Companies engaged in two informal conferences at the Commission's offices to discuss settlement with KIUC and the Attorney General of the Commonwealth of Kentucky ("AG"), the only intervening party. The Commission Staff supervised and provided input in both informal conferences.

On January 29, 2018, the Companies filed testimony and exhibits that included an *Offer and Acceptance of Satisfaction*. The *Offer and Acceptance of Satisfaction* was executed by the Companies, KIUC, and the AG. The Companies, KIUC, and the AG jointly recommended the Commission accept and approve the *Offer and Acceptance of Satisfaction* without modification as the reasonable disposition of KIUC's complaint.

In pertinent part, under the *Offer and Acceptance of Satisfaction*, the Companies would provide a surcredit ("TCJA Surcredit") to pass the base rate benefits of the TCJA to customers for service rendered beginning April 1, 2018 through billing credits on a per kWh basis for electric customers and per Ccf for gas customers. It is important to note that, while the TCJA Surcredit began with service rendered beginning April 1, 2018, the TCJA Surcredit rates were based on the benefits of the TCJA from January 1, 2018, the effective date of the TCJA, through and including April 30, 2019, the day prior to the next expected change in the Companies' base rates following a rate case the Companies expect to file in September 2018.

Q. Did the Commission approve the *Offer and Acceptance of Satisfaction* with modifications?

A. Yes. On March 20, 2018 the Commission issued an order approving, with modifications, the *Offer and Acceptance of Satisfaction*. Specifically, the Order took issue with the calculation of the TCJA Surcredit and stated: "Since KU/LG&E have recently conducted rate cases based on current test years ending June 30, 2018, the Commission finds that it is not reasonable to utilize forecasted test years extending through April 2019." The Commission's modifications increased the amount of the TCJA Surcredit by approximately $26.9 million.

Q. Following the Commission's March 20, 2018 Order, did the Companies withdraw from the *Offer and Acceptance of Satisfaction*?

A. Yes. The Companies withdrew from the *Offer and Acceptance of Satisfaction* pursuant to Section 5.6 of the *Offer and Acceptance of Satisfaction*. By letter dated March 26, 2018, LG&E and KU gave notice to the parties and the Commission of their withdrawal. On that same day, consistent with their efforts to return the net benefits of the TCJA to customers as soon as reasonably possible, the Companies filed a Petition, requesting reconsideration of the Commission's modifications to the *Offer and Acceptance of Satisfaction* and a hearing, and the authority to implement the TCJA Surcredit at the levels proposed by the parties in the *Offer and Acceptance of Satisfaction* for service rendered on and after April 1, 2018.[1]

[1] The *Offer and Acceptance of Satisfaction* provided that KU residential and non-residential customers would receive a per kWh credit of $(0.00415) and $(0.00323), respectively. LG&E electric residential and non-residential customers would receive a per kWh credit of $(0.00444) and $(0.00344), respectively. The *Offer and Acceptance of Satisfaction* also proposed a credit of $(0.03384) per Ccf for LG&E gas customers. In response to Question No. 3 of the Commission Staff's First Request for Information dated February 1, 2018, LG&E provided calculations allocating the gas credit between residential and non-residential customers, respectively,

Q. Did the AG withdraw from the *Offer and Acceptance of Satisfaction*?

A. Yes. On March 28, 2018, the AG exercised its Section 5.6 right to withdraw and notified the Companies and KIUC of its withdrawal. The AG's withdrawal and defense of the Commission's treatment of capitalization represents a sudden and dramatic change in position. Only one week before the issuance of the Order of March 20, 2018, the AG supported the methodology used in the *Offer and Acceptance of Satisfaction*, advocating to the Commission:

> [I]t is appropriate for incremental capitalization effects to be taken into account when entertaining single-issue rate reductions. **It is the Attorney General's position that LG&E/KU's change in capitalization in its Satisfaction was just that; an appropriate update of capitalization to reflect the unintended consequences of the change in federal law**.[2]

The AG offers no explanation for his change in position.

The AG also filed a response to the Companies' Petition, objecting to all the relief requested and demanding the modified *Offer and Acceptance of Satisfaction* be implemented as directed by the March 20, 2018 Order.

Q. Did KIUC withdraw from the *Offer and Acceptance of Satisfaction*?

A. No. KIUC has continued to support the *Offer and Acceptance of Satisfaction* as a "reasonable resolution of the issues in this proceeding."[3]

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for a credit of $(0.05042) and $(0.02087) per Ccf and indicated LG&E was willing to implement the TCJA surcredit for gas operations on this basis.

[2] Attorney General's Comments on Proposed Non-Unanimous Stipulation and Settlement Agreement at 5 (Mar. 13, 2018) (filed in *Kentucky Industrial Utility Customers, Inc. v. Duke Energy Kentucky, Inc.*, Case No. 2018-00036 (Ky. PSC initiated Jan. 25, 2018)) (emphasis added).

[3] KIUC Letter in Support (filed Mar. 26, 2018).

Q. Did the Commission grant the Companies' Petition for reconsideration and a hearing?

A. Yes. On March 28, 2018, the Commission issued an Order granting the Companies' Petition for Reconsideration and Request for Hearing. The Order stated: "[R]ehearing should be granted to allow the record to be more fully developed on the limited issues raised in the petition of the modification of capitalization and cost of capital."

Q. Did the Commission allow the Companies to implement the TCJA Surcredit at the amount proposed in the *Offer and Acceptance of Satisfaction*?

A. Yes. In its Order of March 28, 2018, the Commission also approved the Companies' request to implement the TCJA Surcredit effective April 1, 2018 at the levels proposed in the *Offer and Acceptance of Satisfaction*, with a modification to the allocation of the gas TCJA Surcredit.[4]

Q. Has the Commission expanded the scope of the rehearing granted in its Order of March 28, 2018?

A. Yes. On March 30, 2018, the Commission issued an Order amending the March 28, 2018 Order "to the limited extent that the rehearing is not confined to capitalization and cost of capital, and the parties may raise any relevant issue related to TCJA."

[4] Pursuant to the *Offer and Acceptance of Satisfaction* and the Commission's Order of March 28, 2018, the Companies implemented the TCJA Surcredit at the following rates for service rendered on April 1, 2018. KU residential and non-residential customers receive a per kWh credit of $(0.00415) and $(0.00323), respectively. LG&E electric residential and non-residential customers receive a per kWh credit of $(0.00444) and $(0.00344), respectively. LG&E gas residential and non-residential customers, receive a per Ccf credit of $(0.05042) and $(0.02087), respectively.

Q. Have the Companies and KIUC re-executed the *Offer and Acceptance of Satisfaction*?

A. Yes. On March 30, 2018, the Companies' counsel sent a letter to KIUC and the AG explaining that in light of the Commission's decision to grant the Companies' Petition for Reconsideration and Request for Hearing, the Companies are reinstating their offer set forth in the *Offer and Acceptance of Satisfaction*. The Companies' executed signature page was attached to the letter. KIUC accepted the Companies' offer to reinstate the terms of the *Offer and Acceptance of Satisfaction* by re-executing and filing its signature page with the Commission on April 2, 2018. The re-executed signature pages to the *Offer and Acceptance of Satisfaction* are attached to my testimony as Exhibit KWB-1.

Q. Should the Commission consider limited adjustments to the Companies' capitalization and cost of capital when considering the effects of the TCJA outside of the context of a base rate case?

A. Yes. The Companies recognize that the impact of the TCJA would be best addressed in the context of a base rate case. The Companies plan to file a base rate case by the end of September 2018, but sought to return benefits of the TCJA to customers as soon as reasonably possible from the inception of the TCJA on January 1, 2018. To the extent the Commission determines the effect of the TCJA outside the context of a full base rate case, it should do so in a way that is not unfair to those utilities by allowing the utilities to present established, known, and measurable adjustments to account for the utility's current financial condition that correspond with the time period in which the TCJA is in effect, and match the financing costs with the current market rates during the term of the TCJA Surcredit. If the Commission does not consider the limited adjustments to the Companies' capitalization and cost of capital because the Companies are not addressing the TCJA within the context of a full base rate case, the Commission is not affording the Companies the same regulatory review allowed to other utilities like Duke Energy Kentucky, Inc. and Atmos Energy Corporation that just happened to have base rate cases pending when the TCJA was enacted.

Q. Do you believe the modifications to the Offer and Acceptance of Satisfaction made in the Commission's Order dated March 20, 2018 provide the Companies a reasonable opportunity to earn their authorized rate of return?

A. No. The estimated amounts to be returned to customers for this period, in the form of the TCJA Surcredit and other rate mechanism adjustments, represent an additional cash outlay resulting from the TCJA that did not exist before and was not reflected in the recently conducted rate cases. Put simply, the estimated $176.9 million to be returned to customers is a reduction in cash revenues received from customers without a corresponding reduction in cash expenses. In addition, the TCJA resulted in an increase in cash taxes paid by the Companies mainly due to the elimination of bonus depreciation under the TCJA. By disallowing the associated increase in capitalization for the Companies, the Commission's modifications are not allowing the Companies to earn their cost of capital on this increase in capitalization that is directly attributed to the TCJA. Likewise, the Commission's modifications to the *Offer and Acceptance of Satisfaction* fail to recognize projected increases in the market cost of debt (most of which have already occurred) since the Companies' last base rate case. Thus, as a result of this and the previous modification, the Companies will not be able to recover their interest expense over the sixteen-month period for which the TCJA benefits have been estimated. Finally, by failing to acknowledge other increases in the Companies' capitalization for this sixteen-month period while fully recognizing the benefits to customers of the TCJA, the Companies will not recover their cost of capital. For these reasons, the Companies are not being provided the opportunity to earn their authorized return on equity. As the implementation of the TCJA Surcredit effectively serves as a base rate reset, these other impacts to the Companies' revenue requirement should be incorporated to provide for rates that are fair, just, and reasonable. Moreover, this provides the Companies with the same treatment being afforded other utilities in the state who just happened to have pending rate cases at the time the TCJA became effective.

<u>ADJUSTMENTS</u>

Q. Please describe how the Companies adjusted the jurisdictional capitalization of each utility to calculate the TCJA Surcredit proposed in the *Offer and Acceptance of Satisfaction*.

A. As I explained in my testimony filed on January 29, 2018, the Companies calculated the TCJA Surcredit beginning with KU's and LG&E's adjusted jurisdictional capitalization for the forecasted twelve-month test years ending June 30, 2018, as accepted by the Commission in their most recent rate cases. Then, the Companies adjusted jurisdictional capitalization of each utility forward to match the period the TCJA is in effect to calculate the net impact of the TCJA on the Companies' revenue requirements. The Companies then made adjustments typically found in base rate cases, including the removal of non-utility capitalization and other rate mechanisms.

The jurisdictional factor used to adjust the per books capitalization of KU to the amounts under the Commission's jurisdiction and the jurisdictional factor used to allocate LG&E's per books capitalization to its electric and gas operations are consistent with those used in the Companies' last base rate cases.

Q. Why is the use of a forecasted period ending April 30, 2019 appropriate?

A. The period from January 1, 2018 to April 30, 2019 is appropriate because it is the period during which the TCJA is in effect prior to the expected effective date of the next adjustment to the Companies' base rates following a base rate case.

Q. Why is the Commission's use of the test years ending June 30, 2018 inappropriate?

A. In the Commission's Order of March 20, 2018, the Commission based its "calculations of the tax rate reductions on the forecasted capitalizations for the test year ending June 30, 2018, used in KU/LG&E's prior rate cases." As reason for the modification to the *Offer and Acceptance of Satisfaction*, the Commission stated only that the Companies had recently concluded rate cases using the test year proposed by the Commission, and using the forecasted test years as proposed in the *Offer and Acceptance of Satisfaction* "would require the adoption of forecasted adjustments to the capitalizations of KU/LG&E that have not been subjected to the Commission's investigation and review." However, the use of the test year ending June 30, 2018 capitalizations from the last rate cases to calculate the effects of the TCJA is inappropriate because the TCJA was not in effect for that entire rate case test year and the associated impacts were not known and measurable at that time. In contrast, the Commission's March 20, 2018 Order did use the sixteen-month period ending April

30, 2019 for the amortization of excess deferred income taxes. Further, since the forecasted test years in the Companies' last rate cases did not assume a change in tax law, the test year ending June 30, 2018 included the assumption that bonus depreciation would remain in place. In summary, the March 20, 2018 Order ignores significant impacts of the TCJA and disregards the actual period in which the TCJA and the TCJA Surcredit is in effect.

Q. Will the Companies have to finance the distributions through the TCJA Surcredit?

A. Yes. The Companies must entirely finance the TCJA Surcredit and rate mechanism reductions attributable to the TCJA. As I previously stated, the TCJA savings to be returned to customers through the TCJA Surcredit and other rate mechanisms are a reduction in cash revenues received from customers without a corresponding reduction in cash expenses given each Company's net operating loss position. This is a different situation than existed when the 1986 Tax Reform Act was put into effect. The TCJA will also result in incremental cash taxes paid by the Companies as a result of the elimination of bonus tax depreciation. The Companies' adjustments account for these costs associated with financing the TCJA Surcredit and rate mechanism reductions attributable to the TCJA.

Q. What portion of the additional capitalization is directly attributable to the TCJA?

A. The table below shows that the majority of the increase in capitalization from the Companies' last forecast test period to the sixteen-month period for which the TCJA is in effect is directly attributable to the TCJA.

Impact to Capitalization ($000)	17-Month Average Ending 4/30/19			
	KU Jurisdictional	LG&E Electric	LG&E Gas	Total
TCJA Credit to Customers	$28,300	$20,590	$5,190	$54,080
TCJA Impact on other Rate Mechanisms	10,583	10,017	176	20,776
TCJA Impact on Cash Taxes Paid	6,402	2,305	483	9,189
Subtotal - TCJA Impacts	$45,285	$32,912	$5,848	$84,046
Other	43,453	21,398	(12,877)	51,975
Total	$88,739	$54,310	($7,028)	$136,021

Using KU's and LG&E's costs of capital of 8.92% and 8.86%, respectively, per the *Offer and Acceptance of Satisfaction* and the factor of 1.33 to convert the annual revenue requirement to a sixteen-month period, the direct impact on KU's and LG&E's revenue requirement increase due to capitalization changes directly attributable to the TCJA is $10.0 million ($5.4 million for KU, $3.9 million for LG&E electric operations and $0.7 million for LG&E gas operations). Using the Commission's modified costs of capital for KU and LG&E of 8.79% and 8.75%, respectively and the same 1.33 factor to convert to a sixteen-month period, KU's and LG&E's revenue requirement increase due to capitalization changes directly attributable to the TCJA is $9.8 million ($5.3 million for KU, $3.8 million for LG&E electric operations and $0.7 million for LG&E gas operations).

Q. Do you have an exhibit supporting the increase in capitalization due to cash taxes paid?

A. Yes. It is attached as Exhibit KWB-2. This shows the TCJA impact on cash taxes paid by KU and LG&E.

Q. Is it appropriate to also consider other capitalization impacts for the new forecasted period?

A. Yes. It is appropriate to consider these impacts to allow the Companies the opportunity to recover their cost of capital, particularly given the strain the TCJA is placing on the Companies' credit metrics and credit ratings. Using KU's and LG&E's costs of capital of 8.92% and 8.86%, respectively, per the *Offer and Acceptance of Satisfaction* and the factor of 1.33 to convert the annual revenue requirement to a sixteen-month period, the impact on KU's and LG&E's revenue requirement increase due to other capitalization changes is $6.2 million ($5.2 million for KU, $2.5 million for LG&E electric operations and $(1.5) million for LG&E gas operations). Using the Commission's modified costs of capital for KU and LG&E of 8.79% and 8.75%, respectively and the same 1.33 factor to convert to a sixteen-month period, KU's and LG&E's revenue requirement increase due to other capitalization changes is $6.1 million ($5.1 million for KU, $2.5 million for LG&E electric operations and $(1.5) million for LG&E gas operations).

Q. Does the Commission's Order contain a calculation of the gross-up for bad debt and the Commission assessment?

A. Yes. Appendix C of the Commission's March 20, 2018 Order notes that the adjusted rate of return reflects the impact of the Commission assessment rate and the uncollectible rate. The Companies agree with the calculation in concept but disagree with the calculation in the March 20, 2018 Order. Exhibit KWB-3, which is attached, shows the Companies' calculation of the rate of return adjusted for income taxes reflecting the impact of the Commission assessment and uncollectible rates. This adjustment only impacts the Companies' cost of capital by .01% relative to that used in the *Offer and Acceptance of Satisfaction*.

Q. Please explain the difference between the cost of capital per the *Offer and Acceptance of Satisfaction* and that used by the Commission in its Order.

A. While the *Offer and Acceptance of Satisfaction* maintained the capital structure and authorized return on equity from the Companies' last base rate case, it did adjust the cost of debt to projected interest rates for the sixteen-month period during which the TCJA impact is being estimated. Since the most recent rate cases were filed in November 2016, the Federal Reserve has increased its targeted federal funds interest rates by 0.25% five times for a total increase of 1.25%. The current target set by the Federal Reserve is 1.50%-1.75%, and the current one month LIBOR rate (the index used for many corporate short-term borrowing arrangements) is 1.89%. The Companies pay a credit premium above the federal funds rate or LIBOR. The Federal Reserve has indicated that additional increases in the federal funds rate are expected in 2018 and 2019. This clearly demonstrates that calculations in the Commission's March 20, 2018 Order which were based on short-term rates of 0.74% for KU and 0.72% for LG&E are not reasonable, and would not allow the Companies to recover their cost of debt.

The update for market interest rates made in the *Offer and Acceptance of Satisfaction* only affected variable rate debt and any expected financings during the sixteen-month period, with all fixed rate debt remaining at the level embedded in those debt instruments. The interest rate update in the *Offer and Acceptance of Satisfaction* increased the Companies' weighted cost of capital by 0.12% and 0.10% for KU and LG&E, respectively.

The Companies believe an adjustment to reflect current interest rates should be considered in calculating the TCJA Surcredit because updated interest rate figures are rationally related to the increase in capitalization, readily available, known and measurable. The Commission for many years has used updated interest rates when determining the cost of debt for ratemaking purposes in rate cases using a historic test period. Additionally, a portion of the Companies' updated cost of debt impact is due to increased interest rates on incremental financing that is a direct impact of the TCJA. Because increased interest rates are a known and measurable cost that will partially offset the benefit of the reduced corporate tax rate, they should be included in any calculation of the customer benefits from the TCJA.

Q. Please describe Exhibit KWB-4.

A. Exhibit KWB-4 compares the annual revenue requirement and 16 month requirement to recover interest expense in a variety of scenarios. Lines 2 through 4 of the exhibit show the amounts that would be recovered using the interest rates from the last rate case applied to both the capitalization included in the *Offer and Acceptance of Satisfaction* and the capitalization from the last rate case. Similarly, lines 8 through 10 show the amounts recovered using the projected interest rates from the *Offer and Acceptance of Satisfaction*. Rows 14 through 16 reflect updated market interest rate projections applied to the two capitalization amounts. Pages 2 through 4 and 7 through 9 of the exhibit provide detail on how the current interest rate projections were developed. The exhibit clearly demonstrates that the interest rates incorporated in the Commission's Order result in less than full recovery of the Companies' projected interest expense.

EXCESS DEFERRED TAXES

Q. Please describe the creation of excess deferred taxes.

A. Customers have long benefited from accelerated depreciation deductions for tax purposes where the amount of depreciation deducted on federal income tax returns is greater than the amount of depreciation recorded for book purposes. The accumulated difference reduces the capitalization of the Companies, which lowers the revenue requirement for customers. This accumulated difference is reflected on the balance sheet of the Companies as deferred income taxes and, prior to the TCJA, was based on the 35% federal corporate income tax rate. With a reduction in the federal corporate income tax rate to 21%, the amount that would have ultimately been reversed in favor of the Internal Revenue Service is lowered. Presuming no subsequent change in federal income tax rates, previous tax benefits on the Companies' books as of December 31, 2017 will "reverse" at 21% rather than at the 35% rate, creating "excess deferred taxes."

Q. How did the Companies account for the excess deferred taxes?

A. The Companies reclassified the excess deferred taxes as a regulatory liability as they closed their books for the year ended December 2017. Amortization of these excess deferred taxes began in January 2018 using the Average Rate Assumption Method ("ARAM") as required by the TCJA.[5] Excess deferred taxes for non-property items, also known as "unprotected", were also reclassified to the regulatory liability in December 2017.[6] The Companies began amortizing non-property-related excess

[5] Tax Cuts and Jobs Act § 13001(b)(6)(A), amending § 1561(d)(2) - (d)(3)(B), H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017).
[6] *See Id.* at § 13001(b)(6)(A), amending § 1561(d)(1).

accumulated deferred income taxes ("ADIT") over a 15-year period using a straight-line method.

Q. Do you believe the amortization method for protected excess ADIT proposed in the *Offer and Acceptance of Satisfaction* is consistent with the requirements of the TCJA?

A. Yes. The amortization of protected excess ADIT proposed in the *Offer and Acceptance of Satisfaction* reflects the Companies' interpretation of the TCJA and anticipation that no penalty would be incurred. The Commission appears to agree with this risk and the importance of complying with the ARAM methodology when it noted in footnote 2 of the March 20, 2018 Order, "If it is determined that application of the normalization requirements herein are inconsistent with the requirements of the Tax Cuts and Jobs Act, based on an interpretation that is different than anticipated or otherwise, the Commission would consider modifying the amortization of the 'protected' excess accumulated deferred income taxes to ensure that Internal Revenue Service penalties, which would be detrimental to the utilities and ratepayers, are not incurred."

Q. Why did the *Offer and Acceptance of Satisfaction* amortize non-property-related excess ADIT over 15 years?

A. Excess ADIT balances are largely driven by differences in book and tax accounting for pension expense.[7] In Case Nos. 2014-00371 and 2014-00372,[8] amortization of

[7] In response to the Commission Staff's Second Request for Information, the Companies provided a schedule of protected and unprotected excess ADIT for the test year used in the Companies' base rate cases and the test year utilized in the *Offer and Acceptance of Satisfaction*.

[8] *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of its Electric Rates*, Case No. 2014-00371, Order at 5 (Ky. PSC June 30, 2015); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates,* Case No. 2014-00372, Order at 5 (Ky. PSC June 30, 2015).

actuarial gains and losses in the Companies' pension expense was set at 15 years and that ratemaking treatment was carried forward in Case Nos. 2016-00370 and 2016-00371. In executing the original *Offer and Acceptance of Satisfaction*, the parties discussed and agreed to use a 15-year amortization period for non-property-related excess ADIT to be consistent with the ratemaking treatment being provided to the amortization of actuarial gains and losses in the Companies' pension expense. The parties agreed to the use of this amortization period with awareness of the stress that the TCJA is placing on the credit metrics and ratings of utilities across the country.

NEGATIVE IMPACTS NOT CONSIDERED

Q. Are there other negative impacts of the TCJA that the Companies did not include when calculating the estimated amounts to be distributed in the TCJA Surcredits?

A. Yes. In calculating the TCJA Surcredits, the Companies did not include several additional negative impacts that, if considered, would have reduced the current amount of the TCJA Surcredit. These adverse impacts that were not considered include the Companies' credit rating risk, updates to the Companies' adjusted net operating income since their last rate cases, the impact on third party transmission revenues through the transmission formula rate, and the impact of a write-off taken by the Companies' parent, LG&E and KU Energy LLC, due to the TCJA.

Q. Describe the potential credit rating risk associated with the TCJA.

A. In calculating the TCJA Surcredit, the Companies did not consider the risk of a potential downgrade to the Companies' credit ratings. Credit rating agencies have observed that the TCJA will likely have a negative impact on utilities' cash flows, thus increasing the need for and cost of additional financings.[9] Due to the TCJA's impact, Moody's recently revised its ratings outlook for 25 utilities from "stable" to "negative."[10] S&P Global Ratings recognized that the TCJA's "effect on credit worthiness of regulated utilities and their holding companies could be negative,"[11] and noted that supportive regulatory actions would be important to prevent potential credit rating downgrades.[12]

Q. Is a supportive regulatory environment necessary to achieve favorable credit ratings?

A. Yes. Credit rating agencies consider a utility's regulatory environment as a significant factor in determining a utility's credit rating.[13] Moody's has recognized that while the regulated utility sector is "predominantly investment grade, reflecting the stability generally conferred by regulation," regulation can vary significantly among different jurisdictions.[14] Notably, "[m]ost issuers at the lower end of the ratings spectrum operate in challenging regulatory environments."[15]

Q. Could the Companies experience a credit rating downgrade if the Commission does not appropriately consider the net effect of the TCJA?

A. Yes. The attached Exhibit KWB-5 shows the most heavily weighted financial metric used by Moody's, Cash from Operations Pre-Working Capital to Debt ratio,

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[9] *See U.S. Tax Reform: For Utilities' Credit Quality, Challenges Abound*, S&P Global Ratings (Jan. 24, 2018); *Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform*, Moody's Investors Service (Jan. 19, 2018).

[10] *Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform*, Moody's Investors Service (Jan. 19, 2018).

[11] *U.S. Tax Reform: For Utilities' Credit Quality, Challenges Abound*, p. 2, S&P Global Ratings (Jan. 24, 2018).

[12] *Id at p 3.*

[13] *See Id.*; *Regulated Electric and Gas Utilities, Rating Methodology*, pp. 3-4, 6-15, Moody's Investors Service (June 23, 2017).

[14] *Regulated Electric and Gas Utilities, Rating Methodology*, pp. 3-4, Moody's Investors Service (June 23, 2017).

[15] *Id.* at 4.

calculated under various circumstances.[16] Moody's published range for this metric supporting the Companies' current credit ratings is 22% to 30%. Even at the TCJA Surcredit amount proposed in the *Offer and Acceptance of Satisfaction*, both KU's and LG&E's ratios fall below the low end of Moody's range. If the Companies are forced to implement a higher TCJA Surcredit, the Companies' Cash from Operations Pre-Working Capital will decrease further and the Companies' debt will increase. The result will be even lower Cash from Operations Pre-Working Capital to Debt ratios for both Companies, and a higher risk of a credit rating downgrade.

Q. Would a credit rating downgrade affect the Companies?

A. Yes. A credit rating downgrade would certainly affect the Companies' cost of financing. This adverse impact will grow over time as the Companies refinance existing debt upon maturity and issue new debt to finance increases in capitalization.

Q. Did the Companies consider any updates to their adjusted net operating income since their last rate cases in the calculation of the TCJA Surcredit per the *Offer and Acceptance of Satisfaction*?

A. While discussed, the Parties to the *Offer and Acceptance of Satisfaction* decided to focus only on updates to the Companies' revenue requirement and did not consider changes to the Companies' adjusted net operating income including their most recent load forecast which is lower than that used to set base rates in the Companies' last base rate case.

[16] *Id.* at 22.

Q. Will the TCJA have an impact on revenues received from third parties for the use of the transmission system under the Companies' Open Access Transmission Tariff ("OATT")?

A. Yes. The Federal Energy Regulatory Commission ("FERC") has issued orders directing companies to propose revisions to their transmission rates to reflect the changes in the tax rate from 35% to 21%. Since third party transmission revenues are credited to retail customers in the determination of jurisdictional revenue requirements, any required changes to the OATT that would lower transmission rates will increase the Companies' retail revenue requirement. Such an adjustment was not included in the calculation of the TCJA Surcredit in light of the unanimous settlement reached and documented in the *Offer and Acceptance of Satisfaction*.

Q. Did the TCJA Surcredit include any of the $112 million write-off recorded by LG&E and KU Energy LLC and reported in its 2017 Form 10-K filed with the SEC?

A. No. LG&E and KU Energy LLC reported a $112 million negative impact in "Income Taxes" on the Statement of Income for LG&E and KU Energy LLC.[17] This write-off is largely attributable to a write-down of deferred tax assets associated with net operating loss carryforwards from non-utility affiliates, but also includes $24 million associated with a write-down of deferred tax assets for pensions. While this pension liability and associated deferred tax asset are reflected on the books of LG&E and KU Services Company, over 99% of the associated pension expense over the last five years has been charged to LG&E and KU, ranging from 98.8% to 99.3% over those

[17] PPL Corporation 10-K, pages 38, 152-53, for the year ending December 31, 2017, *available at* https://www.sec.gov/Archives/edgar/data/55387/000092222418000023/ppl-1231201710k.htm.

years. As most of the pension costs are borne by the Companies, this deferred tax asset would have been recovered from the Companies' customers over time had the TCJA not been enacted. This $24 million deferred tax asset write-off for pensions was not considered as an adjustment to the proposed TCJA Surcredit in light of the unanimous settlement reached and documented in the *Offer and Acceptance of Satisfaction*.[18]

Q. Did the Companies make any other concessions in the *Offer and Acceptance of Satisfaction*?

A. Yes. The Companies' original testimony filed in the case suggested that the claim that its rates would no longer be fair, just, and reasonable following the passage of the TCJA would only be true if it caused the Companies to earn in excess of the return on equity range found reasonable in its last base rate cases. However, the *Offer and Acceptance of Satisfaction* included no earnings test or return on equity band. More importantly, the Companies' offered the TCJA Surcredit concept as a means to return savings to customers as quickly as administratively feasible rather than simply record such as a regulatory liability to be addressed in the Companies' next base rate cases. The Companies did this despite the adverse impacts on its credit metrics based on the entirety of the *Offer and Acceptance of Satisfaction* and the anticipation that it would be recognized as a fair, just, and reasonable outcome to this proceeding.

[18] As part of the cost of providing service, the Companies reserve the right to pursue recovery of this cost in their upcoming rate cases.

CONCLUSION AND RECOMMENDATION

Q. What is your conclusion and recommendation to the Commission?

A. I continue to recommend that the Commission accept the *Offer and Acceptance of Satisfaction* as the reasonable disposition of this case. The *Offer and Acceptance of Satisfaction* has been accepted by KIUC and the Companies and provides a fair, just, and reasonable resolution to the issues in this case.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says he is the Chief Financial Officer for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

KWBlake
Kent W. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 6th day of April 2018.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2018

APPENDIX A

Kent W. Blake

Chief Financial Officer
Louisville Gas and Electric Company
Kentucky Utilities Company
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2573

Previous Positions

LG&E and KU Energy LLC (f/k/a E.ON U.S., LG&E Energy LLC)

Vice President, Corporate Planning and Development	2007-Feb 2012
Vice President, State Regulation and Rates	2003-2007
Director, State Regulation and Rates Director, Regulatory Initiatives	
Director, Business Development	2002-2003
Director, Finance and Business Analysis	

Mirant Corporation (f/k/a Southern Company Energy Marketing) 1998-2002

Senior Director, Applications Development
Director, Systems Integration
Trading Controller

LG&E Energy Corp.

Director, Corporate Accounting and Trading Controls 1997-1998

Arthur Andersen LLP 1988-1997

Manager, Audit and Business Advisory Services
Senior Auditor
Audit Staff

Education/Certifications

University of Kentucky, B.S. in Accounting
Certified Public Accountant, Kentucky
Leadership Louisville, 2007

Current Professional and Community Affiliations

American Institute of Certified Public Accountants
Kentucky State Society of Certified Public Accountants
Edison Electric Institute
Metro United Way, Board Chair Elect
University of Louisville College of Business, Board of Advisors
Louisville Downtown Development Corporation, Board Member

EXHIBIT 1

WITNESS WHEREOF, the Parties have hereunto affixed their signatures this 30th day of March, 2018.

Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: Kendrick R. Riggs

Kendrick R. Riggs

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: ____________________

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn

Attorney General for the Commonwealth of Kentucky, by and through the Office of Rate Intervention

HAVE SEEN AND AGREED:

By:____________________________________

Kent A. Chandler
Rebecca W. Goodman
Assistant Attorneys General

EXHIBIT 2

Kentucky Utilities Company
TCJA Impact on Cash Taxes Paid
$000s

Federal Tax Payments	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Q1 Estimated Payment (Apr)	11,059	-	11,059	17,718	16,399	1,319
Q2 Estimated Payment (Jun)	(2,697)	-	(2,697)	5,314	(5,364)	10,678
Q3 Estimated Payment (Sep)	3,334	-	3,334	12,735	8,139	4,596
Q4 Estimated Payment (Dec)	2,561	-	2,561	11,035	5,037	5,998
Total Year	**14,258**	**-**	**14,258**	**46,801**	**24,211**	**22,590**

State Tax Payments	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Q2 Estimated Payment (Jun)	2,303	4,189	(1,886)	1,978	4,487	(2,510)
Q3 Estimated Payment (Sep)	1,152	2,095	(943)	989	2,244	(1,255)
Q4 Estimated Payment (Dec)	1,152	2,095	(943)	989	2,244	(1,255)
Total Year	**4,607**	**8,378**	**(3,772)**	**3,955**	**8,975**	**(5,019)**

Taxable Income Reconcilation	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Pretax Book Income[1]	349,700	422,880	(73,180)	360,224	440,138	(79,913)
Tax Depreciation	(297,631)	(288,608)	(9,023)	(323,706)	(296,104)	(27,602)
Bonus Depreciation	-	(184,936)	184,936	-	(220,400)	220,400
Other Timing Differences	196,819	188,988	7,832	190,301	197,320	(7,019)
Section 199 Benefit			-	-	(5,148)	5,148
State Taxes	(4,607)	(8,378)	3,772	(3,955)	(8,975)	5,019
NOL Utilization	(154,425)	(129,946)	(24,479)	-	(24,479)	24,479
Taxable Income Change	89,857	0	89,857	222,864	82,352	140,512
Tax Rate	21%	35%		21%	35%	
Federal Current Tax	18,870	0	18,870	46,801	28,823	17,978
Credit Utilization	(4,612)	-	(4,612)	-	(4,612)	4,612
Federal Cash Tax Paid	14,258	0	14,258	46,801	24,211	22,590
State Cash Tax Paid	4,607	8,378	(3,772)	3,955	8,975	(5,019)
Total Cash Taxes Paid	**18,865**	**8,378**	**10,486**	**50,757**	**33,186**	**17,571**

[1]Reflects reduction in revenues due to TCJA via TCJA surcredit, other rate mechanism effects, and the TCJA impact on May 2019 change in base rates.

Kentucky Utilities Company
TCJA Impact on Cash Taxes Paid
$000s

Total Company	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	17 month Average
Change in Federal Cash Taxes Paid	-	-	-	-	11,059	11,059	8,362	8,362	8,362	11,697	11,697	11,697	14,258	14,258	14,258	14,258	15,576	9,112
Change in State Cash Taxes Paid	-	-	-	-	-	-	(1,886)	(1,886)	(1,886)	(2,829)	(2,829)	(2,829)	(3,772)	(3,772)	(3,772)	(3,772)	(3,772)	(1,941)
Change in Total Cash Taxes Paid	**-**	**-**	**-**	**-**	**11,059**	**11,059**	**6,477**	**6,477**	**6,477**	**8,868**	**8,868**	**8,868**	**10,486**	**10,486**	**10,486**	**10,486**	**11,805**	**7,171**

KPSC Jurisdictional % 89.28%

KU Jurisdictional	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	17 month Average
Change in Federal Cash Taxes Paid	-	-	-	-	9,874	9,874	7,466	7,466	7,466	10,443	10,443	10,443	12,729	12,729	12,729	12,729	13,907	8,135
Change in State Cash Taxes Paid	-	-	-	-	-	-	(1,684)	(1,684)	(1,684)	(2,525)	(2,525)	(2,525)	(3,367)	(3,367)	(3,367)	(3,367)	(3,367)	(1,733)
Change in Total Cash Taxes Paid	**-**	**-**	**-**	**-**	**9,874**	**9,874**	**5,782**	**5,782**	**5,782**	**7,917**	**7,917**	**7,917**	**9,362**	**9,362**	**9,362**	**9,362**	**10,539**	**6,402**

Louisville Gas and Electric Company
TCJA Impact on Cash Taxes Paid
$000s

Federal Tax Payments	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Q1 Estimated Payment (Apr)	7,406	-	7,406	14,759	-	14,759
Q2 Estimated Payment (Jun)	(3,580)	-	(3,580)	3,708	-	3,708
Q3 Estimated Payment (Sep)	1,575	-	1,575	10,228	-	10,228
Q4 Estimated Payment (Dec)	(1,426)	-	(1,426)	8,091	-	8,091
Total Year	**3,975**	**-**	**3,975**	**36,785**	**-**	**36,785**

State Tax Payments	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Q2 Estimated Payment (Jun)	2,258	3,958	(1,699)	1,420	3,663	(2,244)
Q3 Estimated Payment (Sep)	1,129	1,979	(850)	710	1,832	(1,122)
Q4 Estimated Payment (Dec)	1,129	1,979	(850)	710	1,832	(1,122)
Total Year	**4,516**	**7,915**	**(3,399)**	**2,839**	**7,327**	**(4,488)**

Taxable Income Reconcilation	2018			2019		
	TCJA	Pre-TCJA	Change	TCJA	Pre-TCJA	Change
Pretax Book Income[1]	287,053	350,841	(63,789)	297,805	366,697	(68,892)
Tax Depreciation	(229,545)	(222,112)	(7,433)	(265,667)	(240,808)	(24,859)
Bonus Depreciation	-	(179,816)	179,816	-	(236,500)	236,500
Other Timing Differences	157,618	152,060	5,558	145,869	153,978	(8,109)
State Taxes	(4,516)	(7,915)	3,399	(2,839)	(7,327)	4,488
NOL Utilization	(177,629)	(93,059)	(84,570)	(0)	(36,040)	36,040
Taxable Income Change	32,981	0	32,981	175,167	0	175,167
Tax Rate	21%	35%		21%	35%	
Federal Current Tax	6,926	0	6,926	36,785	0	36,785
Credit Utilization	(2,951)	-	(2,951)	-	-	-
Federal Cash Tax Paid	3,975	0	3,975	36,785	0	36,785
State Cash Tax Paid	4,516	7,915	(3,399)	2,839	7,327	(4,488)
Total Cash Taxes Paid	**8,491**	**7,915**	**576**	**39,624**	**7,327**	**32,297**

[1]Reflects reduction in revenues due to TCJA via TCJA surcredit, other rate mechanism effects, and the TCJA impact on May 2019 change in base rates.

Louisville Gas and Electric Company
TCJA Impact on Cash Taxes Paid
$000s

Total Company	**Dec-17**	**Jan-18**	**Feb-18**	**Mar-18**	**Apr-18**	**May-18**	**Jun-18**	**Jul-18**	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Mar-19**	**Apr-19**	**17 month Average**
Change in Federal Cash Taxes Paid	-	-	-	-	7,406	7,406	3,826	3,826	3,826	5,401	5,401	5,401	3,975	3,975	3,975	3,975	18,734	4,537
Change in State Cash Taxes Paid	-	-	-	-	-	-	(1,699)	(1,699)	(1,699)	(2,549)	(2,549)	(2,549)	(3,399)	(3,399)	(3,399)	(3,399)	(3,399)	(1,749)
Change in Total Cash Taxes Paid	**-**	**-**	**-**	**-**	**7,406**	**7,406**	**2,126**	**2,126**	**2,126**	**2,851**	**2,851**	**2,851**	**576**	**576**	**576**	**576**	**15,335**	**2,787**

Electric	**Dec-17**	**Jan-18**	**Feb-18**	**Mar-18**	**Apr-18**	**May-18**	**Jun-18**	**Jul-18**	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Mar-19**	**Apr-19**	**17 month Average**
Change in Federal Cash Taxes Paid	-	-	-	-	6,123	6,123	3,163	3,163	3,163	4,465	4,465	4,465	3,287	3,287	3,287	3,287	15,490	3,751
Change in State Cash Taxes Paid	-	-	-	-	-	-	(1,405)	(1,405)	(1,405)	(2,108)	(2,108)	(2,108)	(2,810)	(2,810)	(2,810)	(2,810)	(2,810)	(1,446)
Change in Total Cash Taxes Paid	**-**	**-**	**-**	**-**	**6,123**	**6,123**	**1,758**	**1,758**	**1,758**	**2,357**	**2,357**	**2,357**	**476**	**476**	**476**	**476**	**12,679**	**2,305**

Gas	**Dec-17**	**Jan-18**	**Feb-18**	**Mar-18**	**Apr-18**	**May-18**	**Jun-18**	**Jul-18**	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Mar-19**	**Apr-19**	**17 month Average**
Change in Federal Cash Taxes Paid	-	-	-	-	1,283	1,283	663	663	663	935	935	935	688	688	688	688	3,245	786
Change in State Cash Taxes Paid	-	-	-	-	-	-	(294)	(294)	(294)	(442)	(442)	(442)	(589)	(589)	(589)	(589)	(589)	(303)
Change in Total Cash Taxes Paid	**-**	**-**	**-**	**-**	**1,283**	**1,283**	**368**	**368**	**368**	**494**	**494**	**494**	**100**	**100**	**100**	**100**	**2,656**	**483**

EXHIBIT 3

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
COST OF CAPITAL SUMMARY
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 TO APRIL 30, 2019

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	ADJUSTMENT AMOUNT	ADJUSTED CAPITAL	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL	JURISDICTIONAL ADJUSTMENTS	JURISDICTIONAL ADJUSTED CAPITAL	PERCENT OF TOTAL	COST RATE	17 MONTH AVERAGE WEIGHTED COST	TAX GROSS-UP	WEIGHTED COST ADJUSTED FOR INCOME TAXES
	(A)	(B)	(C)	(D)	(E=C+D)	(F)	(G=ExF)	(H)	(I=G+H)	(J)	(K)	(L=JxK)	(M) AT 25.61%	(L+M)
			$	$	$		$	$	$		%	%	%	%
1	SHORT-TERM DEBT		132,679,494	(10,583)	132,668,910	89.28%	118,446,803	(27,179,689)	91,267,115	2.47%	2.94%	0.07%		0.07%
2	LONG-TERM DEBT		2,378,495,605	(189,724)	2,378,305,881	89.28%	2,123,351,490	(487,240,099)	1,636,111,392	44.26%	4.26%	1.89%		1.89%
3	COMMON EQUITY		2,863,437,659	(732,473)	2,862,705,187	89.28%	2,555,823,191	(586,478,287)	1,969,344,904	53.27%	9.70%	5.17%	1.78%	6.95%
4	TOTAL CAPITAL		5,374,612,758	(932,780)	5,373,679,978		4,797,621,484	(1,100,898,074)	3,696,723,410	100.00%		7.13%	1.78%	8.91%

NOTES:

(M) SEE CALCULATION OF COMPOSITE TAX RATE, **PAGE 2**.

KENTUCKY UTILITIES COMPANY

CASE NO. 2018-00034

COMPUTATION OF COMPOSITE FEDERAL AND STATE INCOME TAX RATE

BASED ON LAW AS OF JANUARY 1, 2018

LINE NO.	DESCRIPTION		STATE	FEDERAL
1	OPERATING REVENUE		100.000000%	100.000000%
2	LESS: UNCOLLECTIBLE ACCOUNTS EXPENSE		0.320000%	0.320000%
3	LESS: PSC FEES		0.194100%	0.194100%
4	INCOME BEFORE STATE INCOME TAX (LINES 1 - 2 - 3)		99.485900%	99.485900%
5	STATE INCOME TAX (LINE 4 X 6.00%)	6.00%	5.969154%	5.969154%
6	INCOME BEFORE FEDERAL INCOME TAX (LINES 4 - 5)			93.516746%
7	FEDERAL INCOME TAX (LINE 6 X 21.00%)	21.00%		19.638517%
8	TOTAL STATE AND FEDERAL INCOME TAXES (LINES 5 + 7)			25.607671%

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
COST OF CAPITAL SUMMARY - ELECTRIC
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 TO APRIL 30, 2019

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL	JURISDICTIONAL ADJUSTMENTS	JURISDICTIONAL ADJUSTED CAPITAL	PERCENT OF TOTAL	COST RATE	17 MONTH AVERAGE WEIGHTED COST	TAX GROSS-UP	WEIGHTED COST ADJUSTED FOR INCOME TAXES
	(A)	(B)	(C)	(D)	(E=CxD)	(F)	(G=E+F)	(H)	(I)	(J=HxI)	(K) AT 25.64%	(J+K)
			$	%	$	$	$		%	%	%	%
	ELECTRIC:											
1	SHORT-TERM DEBT		164,253,637	82.68%	135,804,907	(42,447,871)	93,357,036	3.82%	2.90%	0.11%		0.11%
2	LONG-TERM DEBT		1,844,220,475	82.68%	1,524,801,489	(476,599,689)	1,048,201,799	42.91%	4.18%	1.80%		1.80%
3	COMMON EQUITY		2,289,185,622	82.68%	1,892,698,672	(591,591,499)	1,301,107,173	53.27%	9.70%	5.17%	1.78%	6.95%
4	TOTAL CAPITAL		4,297,659,734		3,553,305,068	(1,110,639,059)	2,442,666,008	100.00%		7.07%	1.78%	8.85%

NOTES:

(K) SEE CALCULATION OF COMPOSITE TAX RATE, **PAGE 5**.

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
COST OF CAPITAL SUMMARY - GAS
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 TO APRIL 30, 2019

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL	JURISDICTIONAL ADJUSTMENTS	JURISDICTIONAL ADJUSTED CAPITAL	PERCENT OF TOTAL	COST RATE	17 MONTH AVERAGE WEIGHTED COST	TAX GROSS-UP	WEIGHTED COST ADJUSTED FOR INCOME TAXES
	(A)	(B)	(C)	(D)	(E=CxD)	(F)	(G=E+F)	(H)	(I)	(J=HxI)	(K) AT 25.64%	(J+K)
			$	%	$	$	$		%	%	%	%
	GAS:											
1	SHORT-TERM DEBT		164,253,637	17.32%	28,448,730	(2,133,820)	26,314,910	3.82%	2.90%	0.11%		0.11%
2	LONG-TERM DEBT		1,844,220,475	17.32%	319,418,986	(23,958,276)	295,460,710	42.91%	4.18%	1.80%		1.80%
3	COMMON EQUITY		2,289,185,622	17.32%	396,486,950	(29,738,820)	366,748,130	53.27%	9.70%	5.17%	1.78%	6.95%
4	TOTAL CAPITAL		4,297,659,734		744,354,666	(55,830,916)	688,523,750	100.00%		7.07%	1.78%	8.85%

NOTES:

(K) SEE CALCULATION OF COMPOSITE TAX RATE, **PAGE 5**.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

COMPUTATION OF COMPOSITE FEDERAL AND STATE INCOME TAX RATE

BASED ON LAW AS OF JANUARY 1, 2018

LINE NO.	DESCRIPTION		STATE	FEDERAL
1	OPERATING REVENUE		100.000000%	100.000000%
2	LESS: UNCOLLECTIBLE ACCOUNTS EXPENSE		0.194000%	0.194000%
3	LESS: PSC FEES		0.194100%	0.194100%
4	INCOME BEFORE STATE INCOME TAX (LINES 1 - 2 - 3)		99.611900%	99.611900%
5	STATE INCOME TAX (LINE 4 X 6.00%)	6.00%	5.976714%	5.976714%
6	INCOME BEFORE FEDERAL INCOME TAX (LINES 4 - 5)			93.635186%
7	FEDERAL INCOME TAX (LINE 6 X 21.00%)	21.00%		19.663389%
8	TOTAL STATE AND FEDERAL INCOME TAXES (LINES 5 + 7)			25.640103%

EXHIBIT 4

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
COMPUTATION OF INTEREST EXPENSE

LINE NO.		Using Capitalization Filed in Offer and Acceptance of Satisfaction		Using Capital Structure from Last Rate Case	
		Long-term Debt	Short-term Debt	Long-term Debt	Short-term Debt
1	Interest Rates in Rate Case Filing	4.12%	0.74%	4.12%	0.74%
2	Debt Portion of Capitalization	$ 1,636,111,392	$ 91,267,115	$ 1,596,687,194	$ 89,067,917
3	Amount of Annual Interest Expense	$ 67,365,020	$ 677,318	$ 65,741,773	$ 660,997
4	Amount of Interest Expense to be Recovered (16 months)	$ 89,820,026	$ 903,090	$ 87,655,698	$ 881,329
5					
6					
7	Interest Rates in Offer and Acceptance	4.26%	2.94%	4.26%	2.94%
8	Debt Portion of Capitalization	$ 1,636,111,392	$ 91,267,115	$ 1,596,687,194	$ 89,067,917
9	Amount of Annual Interest Expense	$ 69,773,319	$ 2,682,657	$ 68,092,042	$ 2,618,015
10	Amount of Interest Expense to be Recovered (16 months)	$ 93,031,092	$ 3,576,876	$ 90,789,389	$ 3,490,687
11					
12					
13	Current Interest Rates Projections	4.24%	2.63%	4.24%	2.63%
14	Debt Portion of Capitalization	$ 1,636,111,392	$ 91,267,115	$ 1,596,687,194	$ 89,067,917
15	Amount of Annual Interest Expense	$ 69,393,060	$ 2,398,750	$ 67,720,946	$ 2,340,949
16	Amount of Interest Expense to be Recovered (16 months)	$ 92,524,081	$ 3,198,333	$ 90,294,594	$ 3,121,265

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF LONG-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

										ANNUAL COST					
LINE NO.	DEBT ISSUE TYPE	COUPON RATE	DATE ISSUED (DAY/MO/YR)	MATURITY DATE (DAY/MO/YR)	AVERAGE PRINCIPAL AMOUNT	UNAMORT. (DISCOUNT) OR PREMIUM	UNAMORT. DEBT EXPENSE	UNAMORT. LOSS ON REACQUIRED DEBT	CARRYING VALUE	INTEREST	AMORT. (DISCOUNT) OR PREMIUM	AMORT. DEBT EXPENSE	AMORT. LOSS ON REACQUIRED DEBT	LETTER OF CREDIT AND OTHER FEES	TOTAL
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H=D+E-F-G)	(I=AxD)	(J)	(K)	(L)	(M)	(N=I+J+K+L+M)
		%			$	$	$	$	$	$	$	$	$	$	$
1	Kentucky Utilities_PCB Variable due Feb 1, 2032	1.97%	May 23, 2002	Feb. 1, 2032	20,930,000	-	56,996	487,062	20,385,941	411,798	-	4,018	36,278	20,930	473,023
2	Kentucky Utilities_PCB Variable due Feb 1, 2032	1.97%	May 23, 2002	Feb. 1, 2033	2,400,000	-	39,769	55,759	2,304,471	47,220	-	2,686	4,153	2,400	56,459
3	Kentucky Utilities_PCB Variable due Sep 1, 2042	1.05%	Aug. 25, 2016	Sep. 1, 2042	96,000,000	-	386,266	3,859,412	91,754,322	1,008,000	-	339,626	160,690	-	1,508,316
4	Kentucky Utilities_PCB 5.75% due Feb 1, 2026	5.75%	May 24, 2007	Feb. 1, 2026	17,875,000	-	83,626	166,207	17,625,168	1,027,813	-	10,930	22,390	-	1,061,133
5	Kentucky Utilities_PCB Variable due Oct 1, 2034	1.77%	Oct. 20, 2004	Oct. 1, 2034	50,000,000	-	165,482	1,526,781	48,307,737	883,750	-	9,497	94,880	380,610	1,368,736
6	Kentucky Utilities_PCB Variable due Feb 1, 2032	1.77%	Oct. 17, 2008	Feb. 1, 2032	77,947,405	-	464,221	1,223,866	76,259,318	1,377,720	-	34,369	91,157	593,975	2,097,222
7	Kentucky Utilities_PCB Variable due Oct 1, 2034	1.77%	Feb. 23, 2007	Oct. 1, 2034	54,000,000	-	774,680	211,844	53,013,477	954,450	-	47,788	13,232	411,491	1,426,962
8	Kentucky Utilities_PCB Variable due Feb 1, 2032	1.97%	May 23, 2002	Feb. 1, 2032	7,400,000	-	44,213	171,124	7,184,663	145,595	-	3,038	12,746	7,400	168,778
9	Kentucky Utilities_PCB Variable due May 1, 2023	1.77%	May 19, 2000	May 1, 2023	12,900,000	-	53,287	167,296	12,679,416	228,008	-	10,884	35,867	97,784	372,543
10	Kentucky Utilities_PCB Variable due Feb 1, 2032	1.97%	May 23, 2002	Feb. 1, 2032	2,400,000	-	15,958	173,147	2,210,895	47,220	-	1,108	12,896	2,400	63,624
11	Kentucky Utilities_PCB 6.0% due Mar 1, 2037	6.00%	May 24, 2007	Mar. 1, 2037	8,927,000	-	100,273	199,837	8,626,890	535,620	-	5,268	10,797	-	551,685
12	Kentucky Utilities_FMB 3.250% due Nov. 1, 2020	3.25%	Nov. 16, 2010	Nov. 1, 2020	500,000,000	(411,923)	911,733	-	498,676,344	16,250,000	189,623	419,930	-	-	16,859,554
13	Kentucky Utilities_FMB 3.300% due Oct. 1, 2025	3.30%	Sep. 28, 2015	Oct. 1,2025	250,000,000	(76,114)	1,427,894	-	248,495,992	8,250,000	10,732	201,425	-	-	8,462,157
14	Kentucky Utilities_FMB 4.375% due Oct. 1, 2045	4.38%	Sep. 28, 2015	Oct. 1,2045	250,000,000	(187,345)	2,326,740	-	247,485,915	10,937,500	6,910	85,849	-	-	11,030,259
15	Kentucky Utilities_FMB 4.65% due Nov 15, 2043	4.65%	Nov. 14, 2013	Nov. 15, 2043	250,000,000	(1,512,881)	2,326,721	-	246,160,398	11,625,000	59,956	92,245	-	-	11,777,201
16	Kentucky Utilities_FMB 5.125% due Nov. 1, 2040	5.13%	Nov. 16, 2010	Nov. 1, 2040	750,000,000	(6,023,864)	5,541,478	-	738,434,658	38,437,500	271,424	249,787	-	-	38,958,710
17	Revolving Credit Facility				-	-	1,551,451	101,504	(1,652,955)	-	-	455,063	29,771	-	484,834
18	L of C Facility				-	-	441,737	-	(441,737)	-	-	200,687		-	200,687
19	Called Bonds				-	-	-	129,607	(129,607)	-	-	-	5,821	405,556	411,377
20	2013 30-Year - Swap Hedging FMB - 4.65%									(1,428,467)	-	-	-	-	(1,428,467)
21	2015 10-Year - Swap Hedging FMB -3.30%									1,400,567					1,400,567
22	2015 30-Year - Swap Hedging FMB - 4.375%									982,679					982,679
23															
24	TOTALS				2,350,779,405	(8,212,126)	16,712,526	8,473,446	2,317,381,307	93,121,972	538,645	2,174,198	530,679	1,922,545	98,288,039
25															
26	EMBEDDED COST OF LONG-TERM DEBT (N / H)														4.24%

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF SHORT-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

LINE NO.	ISSUE	AMOUNT OUTSTANDING	INTEREST RATE	INTEREST REQUIREMENT
	(A)	(B)	(C)	(D=BxC)
		$	%	$
	Commercial Paper:			
1	Dec-17	88,757,433	1.500%	1,331,362
2	Jan-18	115,284,207	2.500%	2,882,105
3	Feb-18	80,223,956	2.500%	2,005,599
4	Mar-18	121,132,941	2.500%	3,028,324
5	Apr-18	148,699,047	2.500%	3,717,476
6	May-18	192,732,523	2.500%	4,818,313
7	Jun-18	181,134,637	2.500%	4,528,366
8	Jul-18	171,967,439	2.500%	4,299,186
9	Aug-18	158,153,465	2.500%	3,953,837
10	Sep-18	204,139,312	2.500%	5,103,483
11	Oct-18	234,068,428	2.500%	5,851,711
12	Nov-18	265,582,184	2.500%	6,639,555
13	Dec-18	256,266,518	2.500%	6,406,663
14	Jan-19	232,926,101	3.000%	6,987,783
15	Feb-19	205,950,275	3.000%	6,178,508
16	Mar-19	268,884,001	3.000%	8,066,520
17	Apr-19	296,436,768	3.000%	8,893,103
18	Total	3,222,339,235		84,691,892
19	Weighted Cost of Short-Term Debt	2.628%		

KU is currently issuing weekly commercial paper at rates of 2.35% - see page 4 of Exhibit KWB-4

"The Fed voted unanimously to raise its benchmark federal-funds rate by a quarter-percentage point to a range between 1.5% and 1.75%. Officials said they expected to lift it another two or three times this year, and three times next year."[1]

Projection of 2.50% for 2018 is based on current rates of 2.35% plus at least 2 more rate increases in 2018 of 0.25% each such that rates paid will increase to approximately 2.85% by year-end. The average rate for the full year is expected to be approximately 2.50%. 2019 rates would start at approximately 2.85% and increase during the first four months such that the average would be approximately 3%.

[1]"Fed Raises Rates and Signals Faster Pace in Coming Years" Wall Street Journal, March 21, 2018.

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
COMMERCIAL PAPER RATES

Bank of America Merrill Lynch

Run Date: 04/06/2018 PAGE 1
Time: 14:15 GMT

Book Entry Issuance From 04/02/2018 To 04/06/2018

Trades Awaiting Approval Included: No

Dealer	Tran Num CUSIP	Issue Dt Maturity Dt	Rate Days	Face Value	Proceeds	Reimbursement	Int/Disc Amt
Bank: BAML		Bank of America Merrill Lynch			00001581		
Issuer - Program: KUC		KUC					
Mizuho	201809200142 49167BD32	04/02/2018 04/03/2018	2.3000 1	9,000,000.00	8,999,425.00	9,000,000.00	575.00
Mizuho	201809300148 49167BDB4	04/03/2018 04/11/2018	2.3500 8	23,000,000.00	22,987,988.89	23,000,000.00	12,011.11
Mizuho	201809300149 49167BDC2	04/03/2018 04/12/2018	2.3500 9	2,000,000.00	1,998,825.00	2,000,000.00	1,175.00
MLPFS	201809400040 49167BD57	04/04/2018 04/05/2018	2.3000 1	21,000,000.00	20,998,658.33	21,000,000.00	1,341.67
MLPFS	201809500142 49167BDC2	04/05/2018 04/12/2018	2.3500 7	18,000,000.00	17,991,775.00	18,000,000.00	8,225.00
Totals for: KUC		**KUC** **Num of Transactions: 5**		**73,000,000.00**	**72,976,672.22**	**73,000,000.00**	**23,327.78**
Totals for: KUC		**Num of Transactions: 5**		**73,000,000.00**	**72,976,672.22**	**73,000,000.00**	**23,327.78**
Totals for: BAML		**Bank of America Merrill Lynch** **Num of Transactions: 5**		**73,000,000.00**	**72,976,672.22**	**73,000,000.00**	**23,327.78**
Grand Totals		**Num of Transactions: 5**		**73,000,000.00**	**72,976,672.22**	**73,000,000.00**	**23,327.78**

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
COMPUTATION OF INTEREST EXPENSE - ELECTRIC

LINE NO.		Using Capitalization Filed in Offer and Acceptance of Satisfaction		Using Capital Structure from Last Rate Case	
		Long-term Debt	Short-term Debt	Long-term Debt	Short-term Debt
1	Interest Rates in Rate Case Filing	4.12%	0.72%	4.12%	0.72%
2	Debt Portion of Capitalization	$ 1,048,201,799	$ 93,357,036	$ 1,024,896,166	$ 91,281,343
3	Amount of Annual Interest Expense	$ 43,152,228	$ 669,251	$ 42,192,785	$ 654,371
4	Amount of Interest Expense to be Recovered (16 months)	$ 57,536,304	$ 892,334	$ 56,257,047	$ 872,494
5					
6					
7	Interest Rates in Offer and Acceptance	4.18%	2.90%	4.18%	2.90%
8	Debt Portion of Capitalization	$ 1,048,201,799	$ 93,357,036	$ 1,024,896,166	$ 91,281,343
9	Amount of Annual Interest Expense	$ 43,857,294	$ 2,705,997	$ 42,882,175	$ 2,645,832
10	Amount of Interest Expense to be Recovered (16 months)	$ 58,476,392	$ 3,607,996	$ 57,176,233	$ 3,527,776
11					
12					
13	Current Interest Rates Projections	4.12%	2.59%	4.12%	2.59%
14	Debt Portion of Capitalization	$ 1,048,201,799	$ 93,357,036	$ 1,024,896,166	$ 91,281,343
15	Amount of Annual Interest Expense	$ 43,223,143	$ 2,420,668	$ 42,262,123	$ 2,366,847
16	Amount of Interest Expense to be Recovered (16 months)	$ 57,630,857	$ 3,227,557	$ 56,349,497	$ 3,155,796

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
COMPUTATION OF INTEREST EXPENSE - GAS

LINE NO.		Using Capitalization Filed in Offer and Acceptance of Satisfaction		Using Capital Structure from Last Rate Case	
		Long-term Debt	Short-term Debt	Long-term Debt	Short-term Debt
1	Interest Rates in Rate Case Filing	4.12%	0.72%	4.12%	0.72%
2	Debt Portion of Capitalization	$ 295,460,710	$ 26,314,910	$ 298,476,720	$ 26,583,528
3	Amount of Annual Interest Expense	$ 12,163,486	$ 188,644	$ 12,287,649	$ 190,570
4	Amount of Interest Expense to be Recovered (16 months)	$ 16,217,981	$ 251,526	$ 16,383,532	$ 254,093
5					
6					
7	Interest Rates in Offer and Acceptance	4.18%	2.90%	4.18%	2.90%
8	Debt Portion of Capitalization	$ 295,460,710	$ 26,314,910	$ 298,476,720	$ 26,583,528
9	Amount of Annual Interest Expense	$ 12,362,226	$ 762,750	$ 12,488,417	$ 770,536
10	Amount of Interest Expense to be Recovered (16 months)	$ 16,482,968	$ 1,017,000	$ 16,651,223	$ 1,027,381
11					
12					
13	Current Interest Rates Projections	4.12%	2.59%	4.12%	2.59%
14	Debt Portion of Capitalization	$ 295,460,710	$ 26,314,910	$ 298,476,720	$ 26,583,528
15	Amount of Annual Interest Expense	$ 12,183,475	$ 682,323	$ 12,307,842	$ 689,288
16	Amount of Interest Expense to be Recovered (16 months)	$ 16,244,633	$ 909,764	$ 16,410,456	$ 919,051

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF LONG-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

LINE NO.	DEBT ISSUE TYPE	COUPON RATE	DATE ISSUED (DAY/MO/YR)	MATURITY DATE (DAY/MO/YR)	AVERAGE PRINCIPAL AMOUNT	UNAMORT. (DISCOUNT) OR PREMIUM	UNAMORT. DEBT EXPENSE	UNAMORT. LOSS ON REACQUIRED DEBT	CARRYING VALUE	ANNUAL COST: INTEREST	AMORT. (DISCOUNT) OR PREMIUM	AMORT. DEBT EXPENSE	AMORT. LOSS ON REACQUIRED DEBT	LETTER OF CREDIT AND OTHER FEES	TOTAL
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H=D+E-F-G)	(I=AxD)	(J)	(K)	(L)	(M)	(N=I+J+K+L+M)
		%			$	$	$	$	$	$	$	$	$	$	$
1	LG&E_546676AU1_FMB 5.125% due Nov. 15, 2040	5.13%	Nov. 16, 2010	Nov. 15, 2040	285,000,000	(2,295,474)	2,648,094		280,056,433	14,606,250	103,294	119,144			14,828,688
2	LG&E_546676AV9_FMB 4.65% due Nov 1, 2043	4.65%	Nov. 14, 2013	Nov. 15, 2043	250,000,000	(1,512,288)	2,300,072		246,187,640	11,625,000	59,956	91,179			11,776,135
3	LG&E_546676AW7_FMB 3.30% due Oct 1, 2025	3.30%	Sep. 28, 2015	Oct 1,2025	300,000,000	(91,298)	1,683,360		298,225,343	9,900,000	12,879	237,370			10,150,249
4	LG&E_546676AX5_FMB 4.375% due Oct. 1, 2045	4.38%	Sep. 28, 2015	Oct 1,2045	250,000,000	(187,272)	2,320,493		247,492,235	10,937,500	6,910	85,610			11,030,020
5	LG&E_896221AD0_PCB 3.75% due June 1, 2033	3.75%	Apr. 26, 2007	June 1, 2033	60,000,000		596,457	1,402,980	58,000,563	2,250,000		31,357	95,091	-	2,376,448
6	LG&E_2017 Term Loan $100M	3.03%	Oct. 26, 2017	Oct. 25, 2019	100,000,000		57,143		99,942,857	3,025,000		57,339		-	3,082,339
7	LG&E_2018 Term Loan $100M	3.03%	Jan. 11, 2018	Oct. 25, 2019	94,117,647				94,117,647	2,847,059				-	2,847,059
8	LG&E_473044BV6_PCB Variable due Sep 1, 2026	1.97%	Mar. 6, 2002	Sep 1, 2026	22,500,000		80,047	619,101	21,800,852	442,688		9,675	77,401	22,500	552,263
9	LG&E_546749AK8_PCB Variable due Feb 1, 2035	2.20%	Apr. 13, 2005	Feb 1, 2035	40,000,000		70,034	1,388,359	38,541,608	880,000		75,460	84,562		1,040,022
10	LG&E_546749AL6_PCB Variable Series DD due Nov 1, 2027	2.12%	Mar. 22, 2002	Nov 1, 2027	35,000,000		269,501	550,137	34,180,362	742,875		121,064	60,025		923,964
11	LG&E_546749AM4_PCB Variable due Oct 1,2033	1.56%	Nov. 20, 2003	Oct 1,2033	128,000,000		266,992	4,703,554	123,029,454	2,002,400		258,636	313,572		2,574,608
12	LG&E_546751AH1_PCB Variable due June 1, 2033	1.25%	Apr. 26, 2007	June 1, 2033	35,200,000		85,385	484,057	34,630,558	440,000		106,087	32,822		578,908
13	LG&E_546751AJ7_PCB Variable $31 mil due June 1, 2033	1.25%	Apr. 26, 2007	June 1, 2033	31,000,000		79,964	521,328	30,398,707	387,500		99,560	35,349		522,409
14	LG&E_896224AW2_PCB Variable Series EE due Nov 1, 2027	2.12%	Mar. 22, 2002	Nov 1, 2027	35,000,000		262,210	548,469	34,189,321	742,875		121,024	59,843		923,742
15	LG&E_896224AX0_PCB Variable Series CC due Sep 1, 2026	2.04%	Mar. 6, 2002	Sep 1, 2026	27,500,000		278,167	609,165	26,612,667	560,656		122,829	76,158		759,644
16	LG&E_896224AY8_PCB Variable due Sep 1, 2044	1.97%	Sep. 15, 2016	Sep. 1, 2044	125,000,000		794,666	3,745,363	120,459,970	2,459,375		27,090	143,959	125,000	2,755,424
17	Revolving Credit Facility					-	1,714,815	108,563	(1,823,378)	-	-	502,940	31,841	506,944	1,041,726
18	Called Bonds							185,101	(185,101)				21,231		21,231
19	JP Morgan Chase Bank 5.495%			Nov. 1, 2020						3,106,312					3,106,312
20	Morgan Stanley Capital Services 3.657%			Oct. 1, 2033						620,800					620,800
21	Morgan Stanley Capital Services 3.645%			Oct. 1, 2033						616,960					616,960
22	Bank of America 3.695%									557,036					557,036
23	2013 30-Year - Swap Hedging FMB - 4.65%									(1,428,467)					(1,428,467)
24	2015 10-Year - Swap Hedging FMB -3.30%									1,400,567					1,400,567
25	2015 30-Year - Swap Hedging FMB - 4.375%									982,679					982,679
26															
27			TOTALS		1,818,317,647	(4,086,331)	13,507,399	14,866,179	1,785,857,738	69,705,064	183,039	2,066,364	1,031,854	654,444	73,640,766
28															
29															4.12%
	EMBEDDED COST OF LONG-TERM DEBT (N / H)														

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

EMBEDDED COST OF SHORT-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

LINE NO.	ISSUE	AMOUNT OUTSTANDING	INTEREST RATE	INTEREST REQUIREMENT
	(A)	(B)	(C)	(D=BxC)
		$	%	$
	Commercial Paper:			
1	Dec-17	196,959,740	1.500%	2,954,396
2	Jan-18	131,235,186	2.500%	3,280,880
3	Feb-18	118,556,027	2.500%	2,963,901
4	Mar-18	139,367,573	2.500%	3,484,189
5	Apr-18	171,756,380	2.500%	4,293,910
6	May-18	207,172,900	2.500%	5,179,323
7	Jun-18	196,247,184	2.500%	4,906,180
8	Jul-18	203,429,539	2.500%	5,085,738
9	Aug-18	204,372,494	2.500%	5,109,312
10	Sep-18	229,620,415	2.500%	5,740,510
11	Oct-18	258,766,473	2.500%	6,469,162
12	Nov-18	284,723,869	2.500%	7,118,097
13	Dec-18	276,215,150	2.500%	6,905,379
14	Jan-19	250,868,543	3.000%	7,526,056
15	Feb-19	231,729,948	3.000%	6,951,898
16	Mar-19	282,780,800	3.000%	8,483,424
17	Apr-19	316,086,292	3.000%	9,482,589
18	Total	3,699,888,513		95,934,943
19	Weighted Cost of Short-Term Debt	2.593%		

LG&E is currently issuing weekly commercial paper at rates of 2.35% - see page 9 of Exhibit KWB-4

"The Fed voted unanimously to raise its benchmark federal-funds rate by a quarter-percentage point to a range between 1.5% and 1.75%. Officials said they expected to lift it another two or three times this year, and three times next year."[1]

Projection of 2.50% for 2018 is based on current rates of 2.35% plus at least 2 more rate increases in 2018 of 0.25% each such that rates paid will increase to approximately 2.85% by year-end. The average rate for the full year is expected to be approximately 2.50%. 2019 rates would start at approximately 2.85% and increase during the first four months such that the average would be approximately 3%.

[1] "Fed Raises Rates and Signals Faster Pace in Coming Years" Wall Street Journal, March 21, 2018.

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
COMMERCIAL PAPER RATES

Bank of America Merrill Lynch

Run Date: 04/06/2018 PAGE 1
Time: 14:15 GMT

Book Entry Issuance From 04/02/2018 To 04/06/2018

Trades Awaiting Approval Included: No

Dealer	Tran Num CUSIP	Issue Dt Maturity Dt	Rate Days	Face Value	Proceeds	Reimbursement	Int/Disc Amt
Bank: BAML		Bank of America Merrill Lynch			00001581		
Issuer - Program: LGE		LGE					
Wells	201809200058 54667UD35	04/02/2018 04/03/2018	2.3000 1	17,000,000.00	16,998,913.89	17,000,000.00	1,086.11
Wells	201809300087 54667UDA9	04/03/2018 04/10/2018	2.3500 7	8,000,000.00	7,996,344.44	8,000,000.00	3,655.56
Wells	201809400041 54667UD50	04/04/2018 04/05/2018	2.3000 1	10,000,000.00	9,999,361.11	10,000,000.00	638.89
Wells	201809500143 54667UDC5	04/05/2018 04/12/2018	2.3500 7	20,000,000.00	19,990,861.11	20,000,000.00	9,138.89
Totals for: LGE	**LGE**						
	Num of Transactions: 4			**55,000,000.00**	**54,985,480.55**	**55,000,000.00**	**14,519.45**
Totals for: LGE							
	Num of Transactions: 4			**55,000,000.00**	**54,985,480.55**	**55,000,000.00**	**14,519.45**
Totals for: BAML		**Bank of America Merrill Lynch**					
	Num of Transactions: 4			**55,000,000.00**	**54,985,480.55**	**55,000,000.00**	**14,519.45**
Grand Totals							
	Num of Transactions: 4			**55,000,000.00**	**54,985,480.55**	**55,000,000.00**	**14,519.45**

EXHIBIT 5

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
KEY CREDIT RATING METRICS

Line No.		**With Tax Reform and Settlement** Cash from Operations pre-working capital to Debt	**Pre-Tax Reform** Cash from Operations pre-working capital to Debt
1		**2018**	**2018**
2	Kentucky Utilities	20.85%	24.40%
3	LG&E	21.97%	25.32%
4			
5			
6		**12 months ending April 2019**	**12 months ending April 2019**
7	Kentucky Utilities	20.58%	24.45%
8	LG&E	21.60%	25.73%
9			
10			
11	Moody's Range for Current Rating 22%-30%		