COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

Filed: January 29, 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 before this Commission?

A. Yes. I have testified before the Commission on numerous occasions, most recently for KU in its last base rate case, *Application of Kentucky Utilities Company for an Adjustment of its Electric Rates*, Case No. 2016-00370, and for LG&E in its last base rate case, *Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates*, Case No. 2016-00371.

Q. What is the purpose of your testimony?

A. Pursuant to the Commission's Order of January 5, 2018 in Case No. 2017-00477, my testimony presents and describes in detail the support for the Offer and Acceptance of Satisfaction which the parties are requesting the Commission approve for the disposition of this case. On January 25, 2018, the Commission issued an Order separating Case No. 2017-00447 into utility-specific proceedings. The Commission established Case No. 2018-00034 for the complaint proceeding against KU and LG&E.

Q. Please briefly describe the recently enacted Tax Cuts and Jobs Act.

A. The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017. Despite the adverse consequences on the Companies' cash flows and adverse earnings and cash flow impacts on the Companies' parent company, LG&E and KU and their parent company actively supported the passage of the Tax Act, as it is beneficial to customers and the economy. The Tax Act reduces the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also includes other changes which will currently or ultimately impact the Companies including the elimination of bonus depreciation and the corporate alternative minimum tax ("AMT") provision and the repeal of various other deductions including the Section 199 domestic manufacturing deduction. The Tax Act retains the corporate deduction for state income taxes and the interest deductibility for utilities, and provides modifications for how companies can still utilize net operating losses and existing AMT credit carryforwards.

Q. Please describe the impact of the Tax Act on accumulated deferred income taxes ("ADIT").

A. The Companies and their 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 Tax Act, 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 ("IRS") is lowered. The Companies will amortize this excess ADIT and return such amounts to their customers using the Average Rate Assumption Method ("ARAM") for such property-related ADIT as required by the Tax Act.[1] The Companies have reclassified and recorded the excess deferred taxes as a regulatory liability as they closed their books for the year ended December 2017. The Tax Act does not specify a method for the amortization of other non-property-related ADIT, so that matter was negotiated with the parties to this case. Excess deferred taxes for non-property-related ADIT items will also be reclassified to the regulatory liability.

Q. In addition to the regulatory liabilities the Companies established for the excess deferred accumulated taxes, will the Companies create any other regulatory liabilities to reflect the Tax Act?

A. Yes. In addition the regulatory liabilities associated with the excess deferred accumulated taxes, the Companies will also record a regulatory liability for the reduction in the federal corporate income tax rate under the Tax Act as directed by the Commission's December 27, 2017 order.

OFFER AND ACCEPTANCE OF SATISFACTION

Q. Did the Companies tender an Offer of Satisfaction to resolve the issues raised in the KIUC Complaint?

[1] 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).

A. Yes. On January 8, 2018, LG&E and KU each filed an *Answer and Offer of Satisfaction*. The Companies also filed a joint motion requesting an informal conference to discuss the *Answer and Offer of Satisfaction*. An informal conference for the purpose of discussing the Answers and Offers of Satisfaction and the possibility of settlement took place on January 17, 2018 at the offices of the Commission. The informal conference was extended to and resumed on January 22, 2018. At the informal conference, a number of procedural and substantive issues were discussed, including potential settlement of all issues in the KIUC Complaint related to LG&E and KU. Representatives for the Companies, KIUC, Attorney General, and Commission Staff attended both conferences.

Q. Did the KIUC and the Attorney General accept an offer of satisfaction of KIUC's Complaint from the Companies?

A. Yes. The Companies, KIUC, and the Attorney General reached the Offer and Acceptance of Satisfaction after the conclusion of the informal conferences on January 17 and 22, 2018. The Parties agree that the Offer and Acceptance of Satisfaction is a fair, just, and reasonable resolution of the KIUC Complaint and meets the directives of the Commission's Order dated December 27, 2017 in Case No. 2017-00477. The Offer and Acceptance of Satisfaction is attached to my testimony as Exhibit KWB-1.

Q. Through what means will customers receive the estimated benefits of the Tax Act?

A. The benefit to customers will be provided in two forms. First, the Companies' various rate mechanisms, most notably their Environmental Cost Recovery ("ECR") Surcharges, will be adjusted to reflect the impact of the Tax Act beginning in March based on a January expense month. Second, the Companies will provide a surcredit to provide the base rate benefits of the Tax Act to customers as soon as administratively possible until such times as the Companies' retail rates are reset through base rate cases. The surcredit will be labeled Tax Cuts and Jobs Act Surcredit ("TCJA Surcredit"), and the calculations filed with the Offer and Acceptance of Satisfaction assumes the TCJA Surcredit will appear on customer bills starting in April, 2018. It is important to note that, while the TCJA Surcredit will not appear on customer bills until April, it is based on the benefits of the Tax Act from its inception January 1, 2018, through April 30, 2019, the day before base rates are expected to change following base rate case proceedings. The bill credits identified reflect the estimated 16-month savings returned over a 13-month billing period. The regulatory liabilities I previously described allow the Companies to provide these bill credits over a 13-month billing period for the estimated 16-month savings period.

Q. Please summarize the estimated benefits to be distributed to customers.

A. A summary of the estimated benefits of the Tax Act is included in Article I, Section 1.1 of the Offer and Acceptance of Satisfaction. For KU, the estimated benefits to be distributed to customers are $91,290,656, with $70,180,255 taking the form of the TCJA Surcredit. For LG&E, the estimated benefit for electric customers is $68,934,450, including $48,993,021 from the TCJA Surcredit. For LG&E gas customers, the estimated benefit is $16,663,609, mainly in the form of a TCJA Surcredit estimated at $16,299,321. In total, the Companies will distribute an estimated $176,888,715 to customers for services rendered on and after April 1, 2018 to April 30, 2019, and, as I will discuss, through the ECR mechanisms beginning March 2018.

Q. What is the bill impact for the average residential customer?

A. The Companies estimate the bill impact for the TCJA Surcredit to be a 4.2% reduction for the average KU residential customer, a 4.3% reduction for the average LG&E electric residential customer, and a 3% reduction for the average LG&E gas residential customer.[2] Beginning with March 2018 billings, there will also be an estimated 1.0% and 1.3% reduction in the ECR mechanism billing factor for KU and LG&E residential customers, leading to an estimated total bill reduction of 5.1% for the average KU residential customers and 5.6% for the average LG&E electric residential customer. Exhibit KWB-2 details this calculation.

Q. What is the amount of the TCJA Surcredit?

A. As provided in Article II, Section 2.1 of the Offer and Acceptance of Satisfaction, the Companies will establish monthly energy credits on the electric bills of their Kentucky retail customers as follows:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00415) / kWh	$(0.00323) / kWh
LG&E Electric	$(0.00444) / kWh	$(0.00344) / kWh

LG&E will establish a monthly energy credit on the gas bills of its Kentucky retail customers in the amount of $(0.03384) per Ccf. The monthly energy credits will be applied on Kentucky retail electric and gas customer bills for services rendered on and after April 1, 2018 and continue through April 30, 2019.

Q. Why would the TCJA Surcredit end on April 30, 2019?

[2] The Companies used 1179 kWh for a KU residential customer, 957 kWh for an LG&E electric residential customer, and 55 Ccf for an LG&E gas customer to derive the bill impacts.

A. LG&E and KU expect to file for a change in their base rates no later than September 28, 2018 to address various changes in the supply resources and load of the Companies including the expiration of the Capacity Purchase and Tolling Agreement with Bluegrass Generation, the retirement of Brown Units 1 and 2 and the departure of nine municipal wholesale customers from the KU system. That case would also incorporate the effects of the Tax Act and other changes in revenue requirements. Base rates are expected to be reset effective May 1, 2019 based on a forecasted test year of May 1, 2019 to April 30, 2020. The Companies proposed changes in base rates and the base rates that the Commission approves in those rate cases will fully reflect the impact of the Tax Act. As a result, the base rate credits will no longer be necessary after the next rate case or in the unlikely event that the Companies place the proposed rates into effect subject to refund on May 1, 2019 subject to the Commission's final orders.

Q. Will the monthly energy credit continue beyond April 30, 2019 if new base rates do not take effect on May 1, 2019?

A. Yes, if the Commission has not approved new base rates by May 1, 2019, and the Companies have not placed their proposed base rates into effect subject to refund. As provided in Article III, Section 3.1 of the Offer and Acceptance of Satisfaction, in the event that new base rates for the Companies do not take effect on May 1, 2019, the Companies will continue to impose on the bills of their electric customers the TCJA Surcredit, but in an annualized amount, until such time as new base rates take effect:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00337) / kWh	$(0.00262) / kWh
LG&E Electric	$(0.00360) / kWh	$(0.00280) / kWh

In the event that new base rates for LG&E's gas customers do not take effect on May 1, 2019, LG&E will continue to impose the TCJA Surcredit, but in an annualized amount, until such time as new base rates take effect in the amount of $(0.02750) per Ccf.

The bill credits identified here are lower than those that will be implemented prior to May 1, 2019 because the credits through April 30, 2019 reflect estimated 16-month savings returned over a 13-month billing period. The credits will be reduced May 1, 2019, to reflect an annual savings estimate.

Q. Please describe how the TCJA Surcredit was calculated.

A. Exhibit KWB-3 shows an overall financial summary of the estimated benefits of the Tax Act to be provided to customers through all components of the bill and is consistent with that shown in Section 1.1 of the Offer and Acceptance of Satisfaction. The calculations of the TCJA surcredit for KU, LG&E Electric, and LG&E Gas follow identical calculation processes. The specific calculations for KU, LG&E Electric, and LG&E Gas are attached to my testimony as Exhibits KWB-4, KWB-5 and KWB-6, respectively. I detail the specific calculations in Exhibits KWB-4, KWB-5, and KWB-6 by rows below.

Rows 1-5

Row 1 reflects the adjusted jurisdictional capitalization of each utility from the Companies' most recent rate cases and then brings that forward to the 16-month period for which the impact of the Tax Act is being calculated, that being from its inception on January 1, 2018 until the Companies expect their base rates to be reset on May 1, 2019. The supporting calculations of these amounts are included as pages 2-4 of

Exhibit KWB-4 for KU and pages 2-3 of Exhibits KWB-5 and KWB-6 for LG&E Electric and LG&E Gas. The adjustments are those typically found in base rate cases and include 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. The increase in KU and LG&E Electric's capitalization and the decrease in LG&E Gas's capitalization include the estimated amounts to be distributed to customers per Exhibit KWB-3 and the estimated increase in cash taxes paid to the IRS under the Tax Act.

Prior to the Tax Act, both KU and LG&E had a tax net operating loss carryforward and thus were not cash taxpayers. With the Tax Act, both KU and LG&E are expected to be cash taxpayers for this period. The estimated amounts to be returned to customers for this period represent an additional cash outlay resulting from the Tax Act that did not exist before. 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.

Row 2 reflects the weighted average cost of capital for each of the Companies with the forecasted period of January 1, 2018, through April 30, 2019, adjusted to reflect the new blended federal and state income tax rate of both Companies. The calculation of this amount is also shown on page 2 of Exhibits KWB 4-6. The capital structure and the authorized return on equity used for each of the Companies is that approved in the Companies' most recent rate case. The weighted average cost of short-term and long-term debt were updated to reflect current market interest rates for the forecast period and is detailed for KU on pages 5-6 of Exhibit KWB-4 and pages 4-5 of Exhibits KWB-5 and KWB-6 for LG&E Electric and LG&E Gas, respectively. The calculation of the blended effective tax rate used to incorporate the Tax Act is included on page 7 of Exhibit KWB-4 and page 6 of Exhibits KWB-5 and KWB-6. It reflects the reduction of the corporate federal income tax rate from 35% to 21%, the effect of that on the state income tax deduction benefit and the elimination of the Section 199 deduction.

Row 3 "Required Annual Operating Income" represents the product of Rows 1 and 2 and shows the annual revenue requirement of the Companies before considering excess ADIT. Since Row 3 represents an annual revenue requirement and it is being applied to the 16-month period ending April 30, 2019, it is multiplied by 1.33 on Row 4 (which is 16/12 months) to arrive at the 16-month reduction in the revenue requirement shown on Row 5.

Rows 6-10

Rows 6-10 then add the amortization of excess ADIT to the amount calculated on Row 5. Row 6 represents the amortization of property-related excess ADIT using the ARAM method and the underlying vintage property records of the Companies as required by the Tax Act. Row 7 represents the amortization of non-property-related excess ADIT using a 15-year straight line method. The parties agreed to use a 15-year amortization period because these excess ADIT balances are largely driven by differences in book and tax accounting for pension expense. In Case Nos. 2014-00371 and 2014-00372,[3] amortization of 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. The parties agreed to the use of this amortization period with awareness of the strain that the Tax Act is placing on the credit metrics and ratings of utilities across the country. Row 8 totals the amortization from Rows 6 and 7. All amounts represent 16-months of excess ADIT amortization, and such amounts have been jurisdictionalized. In order to translate this amortization into a revenue requirement impact, it is grossed up for taxes using the post-Tax Act blended federal and state income tax rate on Rows 9 and 10.

<u>Rows 11-13</u>

The revenue requirement reduction due to the Tax Act from Rows 5 and 10 is then summed in Row 11. That amount is divided by the kWh or Ccf annual billing determinants from the Companies' most recent base rate cases multiplied by 13/12 months to reflect the 13-month billing period of April 1, 2018, through April 30, 2019, during which the TCJA Surcredit will be in effect. The resulting per kWh or per Ccf charge is reflected in Row 13.

Q. Please explain the different TCJA Surcredit factors and allocated estimated benefits of the Tax Act for residential and non-residential customers shown on page 1 of Exhibits KWB-4 and KWB-5 for the two electric utilities.

A. The last two columns on each of these pages splits the estimated reduction in revenue requirements between residential and non-residential customer classes proportionately

[3] *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).

using the percentage of revenues provided by each group per the Companies' last base rate cases. Those allocated dollar amounts of benefits are then divided by the annual billing determinants for each group from the Companies' last base rate cases and are adjusted to reflect the 13-month billing period of the TCJA Surcredit to get a different surcredit for each group as shown in the last two columns of Row 13. This allocation methodology was agreed to by all parties to the case and provides a larger share of the estimated benefits of the Tax Act to residential customers since that customer class makes up a larger percentage of revenues than it does kWh consumed given its relative rate design.

Q. Does the Offer and Acceptance of Satisfaction also provide a share of the benefits of the Tax Act with customers through the Companies' rate mechanisms?

A. Yes. As shown in Article IV of the Offer and Acceptance of Satisfaction, customers will also receive credits through the Companies' rate mechanisms, such as the ECR surcharge, Demand Side Management ("DSM") mechanism, and LG&E's Gas Line Tracker ("GLT"). These rate mechanisms have embedded procedural provisions to provide a true-up of actual tax rates and associated rate base amounts. The Companies will employ these procedural mechanisms to return the benefits of the Tax Act associated with the cost of the facilities recovered through the mechanisms to customers.

With regard to the Companies' ECR surcharges, the Commission's December 19, 2017 Orders in Case Nos. 2017-00266 and 2017-00267 approved an overall WACC of 10.33 percent (KU) and 10.34 percent (LG&E) for use in all monthly environmental surcharge filings beginning with the December 2017 expense month. Because the Tax

Act was not enacted at the time the orders were issued, the Orders did not reflect the impact of the lower corporate federal income tax rate. In separate filings, the Companies requested the Commission modify the tax gross-up for the WACC to reflect the changes in the Tax Act effective with the expense month of January 2018 for the ECR surcharge, resulting in an overall grossed-up rate of return of 8.84 percent (KU) and 8.83 percent (LG&E).[4] In Orders dated January 24, 2018, the Commission granted the Companies' motions for reconsideration and determined that the WACC should be adjusted as proposed by the Companies. The Companies will use the WACC, the income tax gross-up factor, and the overall grossed-up rate of return authorized by the Commission's January 24, 2018 orders in Case Nos. 2017-00266 and 2017-00267 effective for the ECR expense month of January 2018 for billings beginning with the March 2018 billing cycle. In addition, in their next ECR review cases, the Companies will propose to modify the ECR Forms to account for the return of the excess deferred taxes.

The Companies also will take timely and comparable actions with respect to the calculation of their other rate mechanisms. With regard to the DSM mechanism, the 2018 tariff filings have already been approved. The Companies will incorporate the Tax Act changes into their 2018 DSM rates when they make their balancing adjustment filings at the end of February 2018 with new rates effective April 1, 2018. For its GLT,

[4] *In the Matter of: An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Two-Year Billing Period Ending April 30, 2017*, Case No. 2017-00266, Order (Ky. PSC Jan. 24, 2018); *In the Matter of: An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Two-Year Billing Period Ending April 30, 2017*, Case No. 2017-00267, Order (Ky. PSC Jan. 24, 2018).

LG&E will include the effect of the Tax Act changes in the 2018 annual filing being made at the end of February 2018 with rates effective May 1, 2018.

<u>TCJA Surcredit Tariffs</u>

Q. Are the Companies proposing new rate schedules to reflect the TCJA Surcredit?

A. Yes. Attached as Exhibit KWB-7 are proposed tariff sheets for KU, LG&E Electric and LG&E Gas to implement the TCJA Surcredit adjustment clause. LG&E will also modify the special contract with the Louisville Water Company so that the TCJA Surcredit will apply in the same manner as all tariffed rate schedules.

Q. Is there a need for a "true-up" to either the TCJA Surcredit or other rate mechanisms as it relates to the benefits of the Tax Act?

A. No. The estimated benefits to be provided to customers through the TCJA Surcredit represent a calculation of the impact on the revenue requirement with most provisions of that calculation being tied back to the Companies' last base rate cases. The parties agreed that other changes in adjusted net operating income should not be considered. The most significant and likely change in the ultimate amount of benefits provided by the TCJA Surcredit would be a difference in the actual amounts of energy consumption for the 13-month billing period relative to the assumptions in the Companies' last base rate case. However, all else being equal, a higher or lower amount of energy consumption would raise or lower the taxable income of the Companies. In either case, it is reasonable that the actual amounts provided by the TCJA Surcredit would also be higher or lower as the benefits of the Tax Act would also be higher or lower. With respect to other rate mechanisms, they have established mechanisms for timely trueups for changes in rate base and the weighted average cost of capital, inclusive of the new corporate federal income tax rate.

CONCLUSION AND RECOMMENDATION

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

A. I recommend that the Commission accept the Companies' Offer and Acceptance of Satisfaction as the disposition of this case. The Offer and Acceptance of Satisfaction has been accepted by all parties in this case and allows customers to begin to receive the benefits of the Tax Act as quickly as administratively possible. The Companies request the Commission to issue an order approving the Offer and Acceptance of Satisfaction by February 16, 2018. This will allow the Companies the necessary time to program and test their billing system to implement the TCJA Surcredit for service rendered on and after April 1, 2018.

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 the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W Blake
KENT W. BLAKE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of January 2018.

(SEAL)

Tammy J. Elzy
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

OFFER AND ACCEPTANCE OF SATISFACTION

This Offer and Acceptance of Satisfaction is entered into this 29th day of January 2018 by and between Kentucky Utilities Company ("KU"); Louisville Gas and Electric Company ("LG&E") (collectively, "the Utilities"); Kentucky Industrial Utility Customers, Inc. ("KIUC" or "Complainant"); and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("AG"). (Collectively, the Utilities, KIUC, and AG are the "Parties.")

W I T N E S S E T H:

WHEREAS, on December 21, 2017, KIUC filed with the Kentucky Public Service Commission ("Commission") its *Complaint and Petition for the Establishment of a Regulatory Liability to Provide Customers a Rate Reduction Because of Tax Expense Savings* ("Complaint");

WHEREAS, on December 22, 2017, the legislation known as the Tax Cuts and Jobs Act, H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017)("Tax Act") was signed into law and took effect;

WHEREAS, on December 27, 2017, the Commission issued an order with a determination that KIUC's Complaint had established a *prima facie* case and opened Case No. 2017-00477;

WHEREAS, the Commission has granted full intervention in Case No. 2017-00477 to the AG;

WHEREAS, on January 25, 2018, the Commission issued an order separating Case No. 2017-00477 into three separate, utility-specific complaint proceedings. The Commission established a combined complaint case for KU and LG&E and assigned it Case No. 2018-00034 (the "Complaint Proceeding");

WHEREAS, an informal conference for the purpose of discussing the Answers and Offers of Satisfaction filed by Utilities and the possibility of settlement, attended by representatives of the Parties and the Commission Staff, took place on January 17 and 22, 2018, at the offices of the

Commission, and during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in the Complaint Proceeding;

WHEREAS, the Parties hereto unanimously desire to satisfy all the issues pending before the Commission in the Complaint Proceeding;

WHEREAS, it is understood by all Parties hereto that this Offer and Acceptance of Satisfaction is subject to the approval of the Commission, insofar as it constitutes an agreement by the Parties for satisfying KIUC's Complaint and the Complaint Proceeding, and, absent express agreement stated herein, does not represent agreement on any specific claim, methodology, or theory supporting the appropriateness of any proposed or recommended adjustments to Utilities' rates, terms, or conditions;

WHEREAS, all of the Parties agree that this Offer and Acceptance of Satisfaction, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the Complaint Proceeding; and

WHEREAS, the Parties believe sufficient and adequate data and information in the record of this proceeding support this Offer and Acceptance of Satisfaction, and further believe the Commission should approve it and dismiss the Complaint Proceeding as required by 807 KAR 5:001, Section 20(2);

NOW, THEREFORE, for and in consideration of the promises and conditions set forth herein, Utilities make the following offer of satisfaction pursuant to KRS 278.260 and 807 KAR 5:001, Section 20(2), which the KIUC and AG accept:

ARTICLE I. TAX ACT BENEFITS

1.1. From April 1, 2018 to April 30, 2019, the estimated amount of benefits of the Tax Act to be distributed by Utilities as provided in this Offer and Acceptance of Satisfaction are as follows:

LINE NO.	DESCRIPTION	KU	LG&E/ELECTRIC	LG&E/GAS	TOTAL CREDITS
		$	$	$	$
1	BASE RATE CREDIT MECHANISM	(70,180,255)	(48,993,021)	(16,299,321)	(135,472,597)
2	ENVIRONMENTAL SURCHARGE (ECR)	(21,002,921)	(19,852,212)		(40,855,133)
3	GAS LINE TRACKER (GLT)			(364,288)	(364,288)
4	DEMAND SIDE MANAGEMENT (DSM)	(107,480)	(89,217)	-	(196,697)
5	TOTAL CREDITS	(91,290,656)	(68,934,450)	(16,663,609)	(176,888,715)

ARTICLE II. BILL SURCREDITS THROUGH APRIL 30, 2019

2.1. Beginning April 1, 2018 through April 30, 2019, Utilities will establish the following monthly energy credits on the electric bills of their Kentucky retail customers:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00415) / kWh	$(0.00323) / kWh
LG&E Electric	$(0.00444) / kWh	$(0.00344) / kWh

2.2. Beginning April 1, 2018 through April 30, 2019, LG&E will establish a monthly energy credit on the gas bills of its Kentucky retail customers in the amount of $(0.03384) per Ccf.

ARTICLE III. BILL SURCREDITS AFTER APRIL 30, 2019

3.1. Utilities' current base rates took effect July 1, 2017, following orders issued in June 2017 from this Commission in Case Nos 2016-00370 and 2016-00371. Utilities expect to file applications to change base rates with the Commission in 2018. In the event that the current base rates for Utilities do not change on May 1, 2019 (excepting and excluding any adjustments to base rates required by incorporation or "rolled-into" of amounts from the fuel adjustment clause or the environmental surcharge mechanism), Utilities will continue to impose on the bills of their customers the following monthly energy credits, adjusted to reflect estimated annual Tax Act benefits, until such time as new base rates resulting from applications to change base rates take effect:

(A) Beginning May 1, 2019, if the current electric base rates are not changed as a result of a base rate case proceeding, Utilities will establish the following monthly energy credits on the electric bills of their Kentucky retail customers until such time as the base rates are changed:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00337) / kWh	$(0.00262) / kWh
LG&E Electric	$(0.00360) / kWh	$(0.00280) / kWh

(B) Beginning May 1, 2019, if the current gas base rates are not changed as a result of a base rate case proceeding, LG&E will establish the following monthly energy credit on the gas bills of its Kentucky retail customers until such time as the gas base rates are changed: $(0.02750) per Ccf. [1]

[1] The bill surcredits through April 30, 2019 reflect estimated 16-month savings estimates returned over a 13-month billing period. The credits will be reduced May 1, 2019, to reflect an annual savings estimate.

ARTICLE IV. RATE ADJUSTMENT MECHANISMS

4.1. Utilities will employ the procedural mechanisms in their environmental cost recovery surcharge mechanism, demand-side management mechanism and gas line tracker to distribute the Tax Act benefits as follows:

4.2. Utilities will use the weighted average cost of capital, the income tax gross-up factor and the overall grossed-up rate of return authorized by the Commission's January 24, 2018 orders Case Nos. 2017-00266 and 2017-00267 effective for the ECR expense month of January 2018 for billings beginning with the March 2018 billing cycle.

4.3. In the next Commission initiated six-month review proceeding in 2018, Utilities will propose modifications to the ECR monthly forms to allow for the return of the excess deferred taxes.

4.4. With regard to their Demand Side Management mechanisms, Utilities will incorporate the Tax Act changes into the 2018 DSM rates when they make their balancing adjustment filings at the end of February 2018 with new rates effective April 1, 2018.

4.5. For its Gas Line Tracker, LG&E will include the effect of the Tax Act changes in the 2018 annual filing being made at the end of February 2018 with rates effective May 1, 2018.

ARTICLE V. MISCELLANEOUS PROVISIONS

5.1. Except as specifically stated otherwise in this Offer and Acceptance of Satisfaction, entering into this Offer and Acceptance of Satisfaction shall not be deemed in any respect to constitute an admission by any of the Parties that any computation, formula, allegation, assertion, or contention made by any other party in this Complaint Proceeding is true or valid.

5.2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed in KIUC's Complaint and the

Complaint Proceeding, and request the Commission to approve the Offer and Acceptance of Satisfaction.

5.3. Following the execution of this Offer and Acceptance of Satisfaction, the Parties shall cause the Offer and Acceptance of Satisfaction to be filed with the Commission on or about January 29, 2018.

5.4. This Offer and Acceptance of Satisfaction is subject to the acceptance of, and approval by, the Commission. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Offer and Acceptance of Satisfaction be accepted and approved as the complete disposition and resolution of the KIUC Complaint. The Parties commit to notify immediately any other Party of any perceived violation of this provision so the Party may have an opportunity to cure any perceived violation, and all Parties commit to work in good faith to address and remedy promptly any such perceived violation. In all events counsel for all Parties will represent to the Commission that the Offer and Acceptance of Satisfaction is a fair, just, and reasonable means of resolving all issues in the KIUC Complaint relating to the Utilities, and will clearly and definitively ask the Commission to accept and approve the Offer and Acceptance of Satisfaction as such.

5.5. If the Commission issues an order adopting this Offer and Acceptance of Satisfaction in its entirety and without additional conditions, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.

5.6. If the Commission does not accept and approve this Offer and Acceptance of Satisfaction in its entirety, then any adversely affected Party may withdraw from the Offer and Acceptance of Satisfaction within the statutory periods provided for rehearing and appeal of the

Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. If any Party timely seeks rehearing of or appeals the Commission's order, all Parties will continue to have the right to withdraw until the conclusion of all rehearings and appeals. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearings and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Offer and Acceptance of Satisfaction as modified by the Commission's order.

5.7. If the Offer and Acceptance of Satisfaction is voided or vacated for any reason after the Commission has approved the Offer and Acceptance of Satisfaction, none of the Parties will be bound by the Offer and Acceptance of Satisfaction.

5.8. The Offer and Acceptance of Satisfaction shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.

5.9. The Offer and Acceptance of Satisfaction constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into the Offer and Acceptance of Satisfaction.

5.10. The Parties hereto agree that, for the purpose of the Offer and Acceptance of Satisfaction only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

5.11. The Parties hereto agree that neither the Offer and Acceptance of Satisfaction nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Offer and Acceptance of Satisfaction. This Offer and Acceptance of Satisfaction shall not have any precedential value in this or any other jurisdiction.

5.12. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Offer and Acceptance of Satisfaction and based upon the foregoing are authorized to execute this Offer and Acceptance of Satisfaction on behalf of their respective Parties.

The Parties hereto agree that this Offer and Acceptance of Satisfaction is a product of negotiation among all Parties hereto, and no provision of this Offer and Acceptance of Satisfaction shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Offer and Acceptance of Satisfaction, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and this Offer and Acceptance of Satisfaction shall be implemented as written.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: Kendrick R Riggs
Kendrick R. Riggs

-and-

By: Allyson K. Sturgeon (KRR w/ approval)
Allyson K. Sturgeon

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

HAVE SEEN AND AGREED:

By Rebecca W. Goodman

Rebecca W. Goodman
Kent A. Chandler

Justin M. McNeil
Lawrence W. Cook

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: Mil P. Kurt

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn

KU Residential Electric Customer

NOTES:
Using February Billing Factors
ECR using December Expense Mo
Using January Base Rates

						March		April
KU Residential Electric Bill				**Current**		**ECR Change**		**Tax Act**
						Average Usage		
Residential Rate RS				1,179 Kwh				
Customer Charge				$12.25		$12.25		$12.25
All Kwh	kWh	X	0.08795	$103.69		$103.69		$103.69
Fuel/OSS Clause	kWh	X	-0.00157	($1.85)		($1.85)		($1.85)
DSM	kWh	X	0.00230	$2.71		$2.71		$2.71
Tax Act Surcredit	kWh	X		$0.00		$0.00	-0.00415	($4.89)
Subtotal				$116.80		$116.80		$111.91
ECR (X subtotal)			3.87%	$4.52	2.86%	$3.34		$3.20
Subtotal				$121.32		$120.14		$115.11
HEA			0.30	$0.30		$0.30		$0.30
TOTAL				**$121.62**		**$120.44**		**$115.41**
Increase Per Month						($1.18)		($5.03)
						-1.0%		-4.2%
							Total	($6.21)
							Total %	-5.1%

LGE Residential Electric Customer

NOTES:
Using February Billing Factors
ECR using December Expense Mo
Using January Base Rates

						March		April
LG&E Residential Electric Bill				**Current**		**ECR Change**		**Tax Act**
						Average Usage		
Residential Rate RS				957 Kwh				
Customer Charge				$12.25		$12.25		$12.25
All Kwh	kWh	X	0.08865	$84.84		$84.84		$84.84
Fuel/OSS Clause	kWh	X	-0.00076	($0.73)		($0.73)		($0.73)
DSM	kWh	X	0.00248	$2.37		$2.37		$2.37
Tax Act Surcredit	kWh	X		$0.00		$0.00	-0.00444	($4.25)
Subtotal				$98.73		$98.73		$94.48
ECR (X subtotal)			7.74%	$7.64	6.31%	$6.23		$5.96
Subtotal				$106.37		$104.96		$100.44
HEA			0.25	$0.25		$0.25		$0.25
TOTAL				**$106.62**		**$105.21**		**$100.69**
Increase Per Month						($1.41) -1.3%		($4.52) -4.3%
							Total Total %	($5.93) -5.6%

LGE Residential Gas Customer

NOTES:
Using February Billing Factors
Using January Base Rates

						April
LG&E Residential Gas Bill				**Current**		**Tax Act**
				Average Usage		
Residential Rate RGS				55 Ccf		
Customer Charge				$16.35		$16.35
All Ccf	Ccf	X	0.36300	$19.97		$19.97
Gas Supply Clause	Ccf	X	0.43432	$23.89		$23.89
DSM	Ccf	X	0.01877	$1.03		$1.03
Tax Act Surcredit	Ccf	X		$0.00	-0.03384	($1.86)
Subtotal				$61.24		$59.38
GLT - per meter			0.71	$0.71		$0.71
GLT - per Ccf	Ccf	X	0.00065	$0.04		$0.04
HEA			0.25	$0.25		$0.25
TOTAL				**$62.24**		**$60.38**
Increase Per Month						($1.86) -3.0%

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
SUMMARY OF TAX REDUCTION CREDITS

LINE NO.	DESCRIPTION	KU	LG&E-ELECTRIC	LG&E-GAS	TOTAL CREDITS
		$	$	$	$
1	BASE RATE CREDIT MECHANISM	(70,180,255)	(48,993,021)	(16,299,321)	(135,472,597)
2	ENVIRONMENTAL SURCHARGE (ECR)	(21,002,921)	(19,852,212)		(40,855,133)
3	GAS LINE TRACKER (GLT)			(364,288)	(364,288)
4	DEMAND SIDE MANAGEMENT (DSM)	(107,480)	(89,217)	-	(196,697)
5	TOTAL CREDITS	(91,290,656)	(68,934,450)	(16,663,609)	(176,888,715)

KENTUCKY UTILITIES COMPANY

CASE NO. 2018-00034

OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00370 FINAL ORDER (7/1/2017 - 6/30/2018)	FORECASTED PERIOD (1/1/2018 - 4/30/2019) REFLECTING CHANGES TO FEDERAL INCOME TAXES	REVENUE REQUIREMENT IMPACT	RESIDENTIAL TARIFF (39% OF TOTAL REVENUES)	OTHER TARIFFS (61% OF TOTAL REVENUES)
			$	$	$	$	$
1	CAPITALIZATION ALLOCATED TO KENTUCKY JURISDICTION	PAGE 2	3,607,984,536	3,696,723,410	88,738,875		
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.25%	8.92%	-1.33%		
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		369,897,726	329,696,019	(40,201,708)		
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33		
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(53,602,277)		
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - ($309,333,049 USING ARAM)			(11,459,997)			
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(850,810)			
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(12,310,807)			
9	GROSS-UP FACTOR USING 25.74% EFFECTIVE TAX RATE			1.35			
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(16,577,978)		
11	**TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)**				**(70,180,255)**	**(27,370,299)**	**(42,809,956)**
12	ENERGY BILLING UNITS (TY KWH / 12 MO x 13 MO)				19,857,410,575	6,599,267,393	13,258,143,182
13	ENERGY CREDIT PER KWH (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)					**(0.00415)**	**(0.00323)**

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 25.74%	(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%	1.79%	6.96%
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%	1.79%	**8.92%**

NOTES:

(D) "ADJUSTMENT AMOUNTS" REMOVE NON-UTILITY PROPERTY, CONSISTENT WITH CASE NO. 2016-00370. **SEE PAGE 3**.

(F) "JURISDICTIONAL RATE BASE PERCENTAGE IS PER CASE NO. 2016-00370.

(H) "JURISDICTIONAL ADJUSTMENTS" REMOVE RATE BASE OF OTHER RATE MECHANISMS, MAINLY ECR. **SEE PAGE 4**.

(K) SEE CALCULATION OF DEBT COST RATES, **PAGES 5 AND 6**.

(M) SEE CALCULATION OF EFFECTIVE TAX RATE, **PAGE 7**.

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

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	PERCENT OF TOTAL	OTHER COMPREHENSIVE INCOME - EEI	EEI DEFERRED TAXES	INVESTMENT IN OVEC	NET NONUTILITY PROPERTY	ADJUSTMENT AMOUNT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I=E+F+G+H)
			$		$	$	$	$	$
1	SHORT-TERM DEBT		132,679,494	2.47%	-	-	(6,172)	(4,412)	(10,583)
2	LONG-TERM DEBT		2,378,495,605	44.25%	-	-	(110,636)	(79,089)	(189,724)
3	COMMON EQUITY		2,863,437,659	53.28%	-	(504,066)	(133,193)	(95,214)	(732,473)
4	TOTAL CAPITAL		5,374,612,758	100.00%	-	(504,066)	(250,000)	(178,714)	(932,780)

KENTUCKY UTILITIES COMPANY

CASE NO. 2018-00034

COST OF CAPITAL SUMMARY - JURISDICTIONAL ADJUSTMENTS

SEVENTEEN MONTH AVERAGE

FROM JANUARY 1, 2018 TO APRIL 30, 2019

LINE NO.	CLASS OF CAPITAL	REFERENCE	JURISDICTIONAL CAPITAL	PERCENT OF TOTAL	ECR RATE BASE	DSM RATE BASE	PROFORMA ADJUSTMENT RATE BASE	JURISDICTIONAL ADJUSTMENTS
	(A)	(B)	(C=PAGE 2 COL G)	(D)	(E)	(F)	(G)	(H=E+F+G)
			$		$	$	$	$
1	SHORT-TERM DEBT		118,446,803	2.47%	(27,043,787)	(135,902)	-	(27,179,689)
2	LONG-TERM DEBT		2,123,351,490	44.26%	(484,803,841)	(2,436,258)	-	(487,240,099)
3	COMMON EQUITY		2,555,823,191	53.27%	(583,545,826)	(2,932,460)	-	(586,478,287)
4	TOTAL CAPITAL		4,797,621,484	100.00%	(1,095,393,455)	(5,504,619)	-	(1,100,898,074)

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF SHORT-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 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	2.900%	3,343,242
3	Feb-18	80,223,956	2.900%	2,326,495
4	Mar-18	121,132,941	2.900%	3,512,855
5	Apr-18	148,699,047	2.900%	4,312,272
6	May-18	192,732,523	2.900%	5,589,243
7	Jun-18	181,134,637	2.900%	5,252,904
8	Jul-18	171,967,439	2.900%	4,987,056
9	Aug-18	158,153,465	2.900%	4,586,450
10	Sep-18	204,139,312	2.900%	5,920,040
11	Oct-18	234,068,428	2.900%	6,787,984
12	Nov-18	265,582,184	2.900%	7,701,883
13	Dec-18	256,266,518	2.900%	7,431,729
14	Jan-19	232,926,101	3.150%	7,337,172
15	Feb-19	205,950,275	3.150%	6,487,434
16	Mar-19	268,884,001	3.150%	8,469,846
17	Apr-19	296,436,768	3.150%	9,337,758
18	Total	3,222,339,235		94,715,727
19	17 Month Average (D / B)	189,549,367	2.939%	5,571,513
20	Adjustment to Capital Structure - Case No. 2016-00370	(56,869,873)		
21	Adjusted 17 Month Average	132,679,494		
22	Weighted Cost of Short-Term Debt	2.939%		

KENTUCKY UTILITIES COMPANY

CASE NO. 2018-00034

EMBEDDED COST OF LONG-TERM DEBT

SEVENTEEN MONTH AVERAGE

FROM JANUARY 1, 2018 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	2.20%	5/23/2002	Feb. 1, 2032	20,930,000	-	56,996	487,062	20,385,941	461,245	-	4,018	36,278	20,930	522,470
2	Kentucky Utilities PCB Variable due Feb 1, 2032	2.20%	37399	Feb. 1, 2033	2,400,000	-	39,769	55,759	2,304,471	52,890	-	2,686	4,153	2,400	62,129
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	2.00%	Oct. 20, 2004	Oct. 1, 2034	50,000,000	-	165,482	1,526,781	48,307,737	1,001,875	-	9,497	94,880	380,610	1,486,861
6	Kentucky Utilities_PCB Variable due Feb 1, 2032	2.00%	Oct. 17, 2008	Feb. 1, 2032	77,947,405	-	464,221	1,223,866	76,259,318	1,561,871	-	34,369	91,157	593,975	2,281,372
7	Kentucky Utilities PCB Variable due Oct 1, 2034	2.00%	Feb. 23, 2007	Oct. 1, 2034	54,000,000	-	774,680	211,844	53,013,477	1,082,025	-	47,788	13,232	411,491	1,554,537
8	Kentucky Utilities PCB Variable due Feb 1, 2032	2.20%	23-May-02	Feb. 1, 2032	7,400,000	-	44,213	171,124	7,184,663	163,078	-	3,038	12,746	7,400	186,261
9	Kentucky Utilities_PCB Variable due May 1, 2023	2.00%	May 19, 2000	May 1, 2023	12,900,000	-	53,287	167,296	12,679,416	258,484	-	10,884	35,867	97,784	403,019
10	Kentucky Utilities PCB Variable due Feb 1, 2032	2.20%	May 23, 2002	Feb. 1, 2032	2,400,000	-	15,958	173,147	2,210,895	52,890	-	1,108	12,896	2,400	69,294
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	3.300%	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	5.125%	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	Adjustment to Capital Structure - Case No. 2016-00370								61,114,298						-
24															
25	TOTALS				2,350,779,405	(8,212,126)	16,712,526	8,473,446	2,378,495,605	93,660,568	538,645	2,174,198	530,679	1,922,545	98,826,636
26															
27	EMBEDDED COST OF LONG-TERM DEBT (N / TOTALS H LESS LINE NO. 23)														4.26%

KENTUCKY UTILITIES COMPANY
Calculation of Composite Federal and Kentucky
Income Tax Rate
(Based on Law in Effect January 1, 2018)

1. Assume pre-tax income of		100.0000%
2. State income tax (see SIT calc below)		6.0000%
3. Taxable income for Federal income tax before production activities deduction		94.0000%
a. Production Rate	9%	
b. Allocation to Production Income	66.87%	
c. Allocated Production Rate	0.0000%	
4. Less: Production tax deduction (0.0000% of Line 3)		0.0000%
5. Taxable income for Federal income tax (Line 3 - Line 4)		94.0000%
6. Federal income tax at 21% (Line 5 x 21%)		19.7400%
7. Total State and Federal income taxes (Line 2 + Line 6)		25.7400%

State Income Tax Calculation

1. Assume pre-tax income of	100.0000%
2. Less: Production activities deduction @ 0% X 66.87% (1)	0.0000%
3. Taxable income for State income tax	100.0000%
4. State Tax Rate	6.0000%
5. State Income Tax	6.0000%

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034 - ELECTRIC OPERATIONS
OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00371 FINAL ORDER (7/1/2017 - 6/30/2018)	FORECASTED PERIOD (1/1/2018 - 4/30/2019) REFLECTING CHANGES TO FEDERAL INCOME TAXES	REVENUE REQUIREMENT IMPACT	RESIDENTIAL TARIFF (41% OF TOTAL REVENUES)	OTHER TARIFFS (59% OF TOTAL REVENUES)
			$	$	$	$	$
1	CAPITALIZATION ALLOCATED TO ELECTRIC OPERATIONS	PAGE 2	2,388,355,971	2,442,666,008	54,310,038		
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.22%	8.86%	-1.35%		
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		243,998,420	216,516,693	(27,481,728)		
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33		
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(36,642,304)		
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - ($207,520,098 USING ARAM)			(7,552,799)			
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(1,618,844)			
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(9,171,643)			
9	GROSS-UP FACTOR USING 25.74% EFFECTIVE TAX RATE			1.35			
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(12,350,717)		
11	**TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)**				**(48,993,021)**	**(20,087,139)**	**(28,905,882)**
12	ENERGY BILLING UNITS (TY KWH / 12 MO x 13 MO)				12,919,919,682	4,528,429,567	8,391,490,115
13	ENERGY CREDIT PER KWH (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)					**(0.00444)**	**(0.00344)**

LOUISVILLE GAS AND ELECTRIC 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	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 25.74%	(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%	1.79%	6.96%
4	TOTAL CAPITAL		4,297,659,734		3,553,305,068	(1,110,639,059)	2,442,666,008	100.00%		7.07%	1.79%	**8.86%**

NOTES:

(D) "JURISDICTIONAL RATE BASE PERCENTAGE IS PER CASE NO. 2016-00371.

(F) "JURISDICTIONAL ADJUSTMENTS" INCLUDE ITC, AND REMOVE NON-UTILITY PROPERTY, INVENTORIES, AND RATE BASE OF OTHER RATE MECHANISMS, MAINLY ECR. **SEE PAGE 3**.

(I) SEE CALCULATION OF DEBT COST RATES, **PAGES 4 AND 5**.

(K) SEE CALCULATION OF EFFECTIVE TAX RATE, **PAGE 6**.

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

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	PERCENT OF TOTAL	ECR RATE BASE	DSM RATE BASE	TRIMBLE COUNTY INVENTORIES	INVESTMENT TAX CREDITS	INVESTMENT IN OVEC	NET NONUTILITY PROPERTY	ADJUSTMENT AM0UNT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K=E+F+G+H+I+J)
			$		$	$	$	$	$	$	$
	ELECTRIC:										
1	SHORT-TERM DEBT		164,253,637	3.82%	(43,326,348)	(190,166)	(208,341)	1,321,388	(22,713)	(21,691)	(42,447,871)
2	LONG-TERM DEBT		1,844,220,475	42.91%	(486,463,124)	(2,135,160)	(2,339,230)	14,836,388	(255,021)	(243,542)	(476,599,689)
3	COMMON EQUITY		2,289,185,622	53.27%	(603,834,739)	(2,650,321)	(2,903,629)	18,416,045	(316,552)	(302,303)	(591,591,499)
4	TOTAL CAPITAL		4,297,659,734	100.00%	(1,133,624,211)	(4,975,647)	(5,451,200)	34,573,821	(594,286)	(567,537)	(1,110,639,059)

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF SHORT-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 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	2.900%	3,805,820
3	Feb-18	118,556,027	2.900%	3,438,125
4	Mar-18	139,367,573	2.900%	4,041,660
5	Apr-18	171,756,380	2.900%	4,980,935
6	May-18	207,172,900	2.900%	6,008,014
7	Jun-18	196,247,184	2.900%	5,691,168
8	Jul-18	203,429,539	2.900%	5,899,457
9	Aug-18	204,372,494	2.900%	5,926,802
10	Sep-18	229,620,415	2.900%	6,658,992
11	Oct-18	258,766,473	2.900%	7,504,228
12	Nov-18	284,723,869	2.900%	8,256,992
13	Dec-18	276,215,150	2.900%	8,010,239
14	Jan-19	250,868,543	3.150%	7,902,359
15	Feb-19	231,729,948	3.150%	7,299,493
16	Mar-19	282,780,800	3.150%	8,907,595
17	Apr-19	316,086,292	3.150%	9,956,718
18	Total	3,699,888,513		107,242,994
19	17 Month Average (D / B)	217,640,501	2.899%	6,308,411
20	Adjustment to Capital Structure - Case No. 2016-00371	(53,386,864)		
21	Adjusted 17 Month Average	164,253,637		
22	Weighted Cost of Short-Term Debt	2.899%		

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF LONG-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 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	LG&E_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_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_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_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_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	3.36%	Oct. 26, 2017	May 15, 2019	100,000,000		57,143		99,942,857	3,362,500		57,339		-	3,419,839
7	LG&E_2018 Term Loan $100M	3.36%	Jan. 11, 2018	May 15, 2019	100,000,000				94,117,647	3,362,500				-	3,362,500
8	LG&E_PCB Variable due Sep 1, 2026	2.20%	Mar. 6, 2002	Sep 1, 2026	22,500,000		80,047	619,101	21,800,852	495,844		9,675	77,401	22,500	605,419
9	LG&E_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_PCB Variable due Nov 1, 2027	2.33%	Mar. 22, 2002	Nov 1, 2027	35,000,000		269,501	550,137	34,180,362	816,375		121,064	60,025		997,464
11	LG&E_PCB Variable due Oct 1,2033	1.57%	Nov. 20, 2003	Oct 1,2033	128,000,000		266,992	4,703,554	123,029,454	2,010,800		258,636	313,572		2,583,008
12	LG&E_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_PCB Variable due June 1, 2033	1.250%	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_PCB Variable due Nov 1, 2027	2.33%	Mar. 22, 2002	Nov 1, 2027	35,000,000		262,210	548,469	34,189,321	816,375		121,024	59,843		997,242
15	LG&E_PCB Variable due Sep 1, 2026	2.28%	Mar. 6, 2002	Sep 1, 2026	27,500,000		278,167	609,165	26,612,667	628,031		122,829	76,158		827,019
16	LG&E_PCB Variable due Sep 1, 2044	2.204%	Sep. 15, 2016	Sep. 1, 2044	125,000,000		794,666	3,745,363	120,459,970	2,754,688		27,090	143,959	125,000	3,050,737
17	Revolving Credit Facility	0.18%				-	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						2,909,433					2,909,433
20	Morgan Stanley Capital Services 3.657%			Oct. 1, 2033						547,360					547,360
21	Morgan Stanley Capital Services 3.645%			Oct. 1, 2033						543,520					543,520
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	Adjustment to Capital Structure - Case No. 2016-00371								58,362,737						
27			TOTALS		1,824,200,000	(4,086,331)	13,507,399	14,866,179	1,844,220,475	70,785,490	183,039	2,066,364	1,031,854	654,444	74,721,192
28															
29	EMBEDDED COST OF LONG-TERM DEBT (N / TOTALS H LESS LINE NO. 26)														4.18%

LOUISVILLE GAS AND ELECTRIC COMPANY
Calculation of Composite Federal and Kentucky
Income Tax Rate
(Based on Law in Effect January 1, 2018)

1. Assume pre-tax income of		100.0000%
2. State income tax (see SIT calc below)		6.0000%
3. Taxable income for Federal income tax before production activities deduction		94.0000%
a. Production Rate	9%	
b. Allocation to Production Income	54.92%	
c. Allocated Production Rate	0.0000%	
4. Less: Production tax deduction (0.0000% of Line 3)		0.0000%
5. Taxable income for Federal income tax (Line 3 - Line 4)		94.0000%
6. Federal income tax at 21% (Line 5 x 21%)		19.7400%
7. Total State and Federal income taxes (Line 2 + Line 6)		25.7400%

State Income Tax Calculation

1. Assume pre-tax income of	100.0000%
2. Less: Production activities deduction @ 0% X 54.92% (1)	0.0000%
3. Taxable income for State income tax	100.0000%
4. State Tax Rate	6.0000%
5. State Income Tax	6.0000%

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034 - GAS OPERATIONS
OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00371 FINAL ORDER (7/1/2017 - 6/30/2018)	FORECASTED PERIOD (1/1/2018 - 4/30/2019) REFLECTING CHANGES TO FEDERAL INCOME TAXES	REVENUE REQUIREMENT IMPACT
			$	$	$
1	CAPITALIZATION ALLOCATED TO GAS OPERATIONS	PAGE 2	695,552,077	688,523,750	(7,028,326)
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.22%	8.86%	-1.35%
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		71,058,758	61,030,401	(10,028,357)
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(13,371,143)
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - ($75,168,977 USING ARAM)			(1,950,880)	
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(223,585)	
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(2,174,466)	
9	GROSS-UP FACTOR USING 25.74% EFFECTIVE TAX RATE			1.35	
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(2,928,179)
11	**TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)**				**(16,299,321)**
12	GAS BILLING UNITS (TY CCF / 12 MO x 13 MO)				481,601,824
13	GAS CREDIT PER CCF (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)				**(0.03384)**

LOUISVILLE GAS AND ELECTRIC 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	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 25.74%	(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%	1.79%	6.96%
4	TOTAL CAPITAL		4,297,659,734		744,354,666	(55,830,916)	688,523,750	100.00%		7.07%	1.79%	**8.86%**

NOTES:

(D) "JURISDICTIONAL RATE BASE PERCENTAGE IS PER CASE NO. 2016-00371.

(F) "JURISDICTIONAL ADJUSTMENTS" INCLUDE ITC, AND REMOVE RATE BASE OF OTHER RATE MECHANISMS, GLT. **SEE PAGE 3**.

(I) SEE CALCULATION OF DEBT COST RATES, **PAGES 4 AND 5**.

(K) SEE CALCULATION OF EFFECTIVE TAX RATE, **PAGE 4**.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

COST OF CAPITAL SUMMARY - ADJUSTMENT AMOUNT

SEVENTEEN MONTH AVERAGE

FROM JANUARY 1, 2018 TO APRIL 30, 2019

LINE NO.	CLASS OF CAPITAL	REFERENCE	17 MONTH AVERAGE AMOUNT	PERCENT OF TOTAL	GLT RATE BASE	DSM RATE BASE		INVESTMENT TAX CREDITS			ADJUSTMENT AM0UNT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K=E+F+G+H+I+J)
			$		$	$	$	$	$	$	$
	GAS:										
1	SHORT-TERM DEBT		164,253,637	3.82%	(2,134,565)	-		745			(2,133,820)
2	LONG-TERM DEBT		1,844,220,475	42.91%	(23,966,639)	-		8,363			(23,958,276)
3	COMMON EQUITY		2,289,185,622	53.27%	(29,749,201)	-		10,381			(29,738,820)
4	TOTAL CAPITAL		4,297,659,734	100.00%	(55,850,405)	-		19,489			(55,830,916)

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF SHORT-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 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	2.900%	3,805,820
3	Feb-18	118,556,027	2.900%	3,438,125
4	Mar-18	139,367,573	2.900%	4,041,660
5	Apr-18	171,756,380	2.900%	4,980,935
6	May-18	207,172,900	2.900%	6,008,014
7	Jun-18	196,247,184	2.900%	5,691,168
8	Jul-18	203,429,539	2.900%	5,899,457
9	Aug-18	204,372,494	2.900%	5,926,802
10	Sep-18	229,620,415	2.900%	6,658,992
11	Oct-18	258,766,473	2.900%	7,504,228
12	Nov-18	284,723,869	2.900%	8,256,992
13	Dec-18	276,215,150	2.900%	8,010,239
14	Jan-19	250,868,543	3.150%	7,902,359
15	Feb-19	231,729,948	3.150%	7,299,493
16	Mar-19	282,780,800	3.150%	8,907,595
17	Apr-19	316,086,292	3.150%	9,956,718
18	Total	3,699,888,513		107,242,994
19	17 Month Average (D / B)	217,640,501	2.899%	6,308,411
20	Adjustment to Capital Structure - Case No. 2016-00371	(53,386,864)		
21	Adjusted 17 Month Average	164,253,637		
22	Weighted Cost of Short-Term Debt	2.899%		

LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2018-00034
EMBEDDED COST OF LONG-TERM DEBT
SEVENTEEN MONTH AVERAGE
FROM JANUARY 1, 2018 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	LG&E_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_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_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_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_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	3.36%	Oct. 26, 2017	May 15, 2019	100,000,000		57,143		99,942,857	3,362,500		57,339		-	3,419,839
7	LG&E_2018 Term Loan $100M	3.36%	Jan. 11, 2018	May 15, 2019	100,000,000				94,117,647	3,362,500				-	3,362,500
8	LG&E_PCB Variable due Sep 1, 2026	2.20%	Mar. 6, 2002	Sep 1, 2026	22,500,000		80,047	619,101	21,800,852	495,844		9,675	77,401	22,500	605,419
9	LG&E_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_PCB Variable due Nov 1, 2027	2.33%	Mar. 22, 2002	Nov 1, 2027	35,000,000		269,501	550,137	34,180,362	816,375		121,064	60,025		997,464
11	LG&E_PCB Variable due Oct 1,2033	1.57%	Nov. 20, 2003	Oct 1,2033	128,000,000		266,992	4,703,554	123,029,454	2,010,800		258,636	313,572		2,583,008
12	LG&E_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_PCB Variable due June 1, 2033	1.250%	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_PCB Variable due Nov 1, 2027	2.33%	Mar. 22, 2002	Nov 1, 2027	35,000,000		262,210	548,469	34,189,321	816,375		121,024	59,843		997,242
15	LG&E_PCB Variable due Sep 1, 2026	2.28%	Mar. 6, 2002	Sep 1, 2026	27,500,000		278,167	609,165	26,612,667	628,031		122,829	76,158		827,019
16	LG&E_PCB Variable due Sep 1, 2044	2.204%	Sep. 15, 2016	Sep. 1, 2044	125,000,000		794,666	3,745,363	120,459,970	2,754,688		27,090	143,959	125,000	3,050,737
17	Revolving Credit Facility	0.18%				-	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						2,909,433					2,909,433
20	Morgan Stanley Capital Services 3.657%			Oct. 1, 2033						547,360					547,360
21	Morgan Stanley Capital Services 3.645%			Oct. 1, 2033						543,520					543,520
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	Adjustment to Capital Structure - Case No. 2016-00371								58,362,737						
27			TOTALS		1,824,200,000	(4,086,331)	13,507,399	14,866,179	1,844,220,475	70,785,490	183,039	2,066,364	1,031,854	654,444	74,721,192
28															
29	EMBEDDED COST OF LONG-TERM DEBT (N / TOTALS H LESS LINE NO. 26)														4.18%

LOUISVILLE GAS AND ELECTRIC COMPANY
Calculation of Composite Federal and Kentucky
Income Tax Rate
(Based on Law in Effect January 1, 2018)

1. Assume pre-tax income of		100.0000%
2. State income tax (see SIT calc below)		6.0000%
3. Taxable income for Federal income tax before production activities deduction		94.0000%
a. Production Rate	9%	
b. Allocation to Production Income	54.92%	
c. Allocated Production Rate	0.0000%	
4. Less: Production tax deduction (0.0000% of Line 3)		0.0000%
5. Taxable income for Federal income tax (Line 3 - Line 4)		94.0000%
6. Federal income tax at 21% (Line 5 x 21%)		19.7400%
7. Total State and Federal income taxes (Line 2 + Line 6)		25.7400%

State Income Tax Calculation

1. Assume pre-tax income of	100.0000%
2. Less: Production activities deduction @ 0% X 54.92% (1)	0.0000%
3. Taxable income for State income tax	100.0000%
4. State Tax Rate	6.0000%
5. State Income Tax	6.0000%

Kentucky Utilities Company

P.S.C. No. 18, Original Sheet No. 89 N

Adjustment Clause **TCJA**
Tax Cuts and Jobs Act Surcredit

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
This schedule is mandatory to all Standard Rate Schedules listed in Sections 1 and 3 of the General Index except PSA and Special Charges.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall decrease by the Tax Cuts and Jobs Act (TCJA) Surcredit. The TCJA Surcredit will be distributed to the Company's customers based on the following:

TCJA Surcredit per kWh:

Residential (RS, RTOD-Energy, RTOD-Demand, VFD): $0.00415

Non-Residential (all other Rate Schedules): $0.00323

TERMS OF DISTRIBUTION

(1) The TCJA Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the Environmental Cost Recovery Surcharge, Franchise Fee Rider, School Tax, and Home Energy Assistance Program.

(2) The TCJA Surcredit shall be effective April 1, 2018 and continued through April 30, 2019 at the rates specified above.

(3) In the event that the Company's base rates do not change on May 1, 2019, the TCJA Surcredit will continue at the following rates:

TCJA Surcredit per kWh:

Residential (RS, RTOD-Energy, RTOD-Demand, VFD): $0.00337

Non-Residential (all other Rate Schedules): $0.00262

(4) The TCJA Surcredit shall terminate when base rates are changed following an application requesting a change in base rates.

DATE OF ISSUE: January 29, 2018

DATE EFFECTIVE: April 1, 2018

ISSUED BY: /s/ Robert M. Conroy, Vice President
State Regulation and Rates
Lexington, Kentucky

Issued by Authority of an Order of the Public Service Commission in Case No. 2018-00034 dated _____, 2018

Louisville Gas and Electric Company

P.S.C. Electric No. 11, Original Sheet No. 89 N

Adjustment Clause **TCJA**
Tax Cuts and Jobs Act Surcredit

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
This schedule is mandatory to all Standard Rate Schedules listed in Sections 1 and 3 of the General Index except PSA and Special Charges.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall decrease by the Tax Cuts and Jobs Act (TCJA) Surcredit. The TCJA Surcredit will be distributed to the Company's customers based on the following:

TCJA Surcredit per kWh:

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	$0.00444
Non-Residential (all other Rate Schedules):	$0.00344

TERMS OF DISTRIBUTION

(1) The TCJA Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the Environmental Cost Recovery Surcharge, Franchise Fee Rider, School Tax, and Home Energy Assistance Program.

(2) The TCJA Surcredit shall be effective April 1, 2018 and continued through April 30, 2019 at the rates specified above.

(3) In the event that the Company's base rates do not change on May 1, 2019, the TCJA Surcredit will continue at the following rates:

TCJA Surcredit per kWh:

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	$0.00360
Non-Residential (all other Rate Schedules):	$0.00280

(4) The TCJA Surcredit shall terminate when base rates are changed following an application requesting a change in base rates.

DATE OF ISSUE: January 29, 2018

DATE EFFECTIVE: April 1, 2018

ISSUED BY: /s/ Robert M. Conroy, Vice President
State Regulation and Rates
Louisville, Kentucky

Issued by Authority of an Order of the Public Service Commission in Case No. 2018-00034 dated _____, 2018

Louisville Gas and Electric Company

Adjustment Clause **TCJA**
Tax Cuts and Jobs Act Surcredit

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
This schedule is mandatory to all Standard Rate Schedules listed in Section 1 of the General Index.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall decrease by the Tax Cuts and Jobs Act (TCJA) Surcredit. The TCJA Surcredit will be distributed to the Company's customers based on the following:

TCJA Surcredit per 100 cubic feet: $0.03384

TERMS OF DISTRIBUTION
(1) The TCJA Surcredit shall be applied to the customer's bill following the rates and charges for gas service, but before application of the Gas Line Tracker, Franchise Fee Rider, School Tax, and Home Energy Assistance Program.

(2) The TCJA Surcredit shall be effective April 1, 2018 and continued through April 30, 2019 at the rates specified above.

(3) In the event that the Company's base rates do not change on May 1, 2019, the TCJA Surcredit will continue at the following rates:

TCJA Surcredit per 100 cubic feet: $0.02750

(4) The TCJA Surcredit shall terminate when base rates are changed following an application requesting a change in base rates.

DATE OF ISSUE: January 29, 2018

DATE EFFECTIVE: April 1, 2018

ISSUED BY: /s/ Robert M. Conroy, Vice President
State Regulation and Rates
Louisville, Kentucky

Issued by Authority of an Order of the Public Service Commission in Case No. 2018-00034 dated _____, 2018