"*Business Day*" means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the designated office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company or the Remarketing Agent is located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

"*Conversion*" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode or the establishment of a new Long Term Rate Period. The Bonds will be subject to Conversion on or after December 1, 2023.

"*Interest Rate Mode*" means the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate, the Long Term Rate and the SIFMA-Based Term Rate.

"*Long Term Rate Period*" means the period beginning on, and including, the date of issuance of the Bonds and ending on, and including, the day immediately preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

"*Remarketing Agent*" means any remarketing agent selected from time to time by the Company to act, if necessary, as the Remarketing Agent with respect to the Bonds. Any Remarketing Agent will be appointed in accordance with the terms of the Indenture and a remarketing agreement to be entered into between such Remarketing Agent and the Company (the "Remarketing Agreement"). The Remarketing Agent may, without notice to the Company, assign its rights and obligations as Remarketing Agent to a broker-dealer affiliate in accordance with the terms of the Indenture and the Remarketing Agreement.

"*Tender Agent*" means, so long as the Bonds are held in DTC's book-entry-only system, the Trustee, who will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

Redemptions

Optional Redemption. The Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on any date on or after December 1, 2023 at a redemption price of 100% of the principal amount thereof plus interest accrued, if any, to the redemption date.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events occur within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(ii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the

Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iii) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(iv) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.

As a result of a Company Letter Agreement between the Issuer and the Company, to be dated as of September 5, 2018, the Company will agree that it will not, prior to the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds, exercise the rights under the Loan Agreement it would otherwise have to redeem the Bonds under the following circumstances:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project; or

(ii) if changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station have occurred, which, in the judgment of the Company, render the continued operation of the Generating Station or any generating unit at the Generating Station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to compliance with the terms of the First Mortgage Indenture and receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation."

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user of the Project within the meaning of Section 147 of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability will be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (a) gives the Company and the Trustee prompt notice of the commencement thereof, and (b) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (a) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (b) the Company will exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 20 days prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the heading "Summary of the Indenture — Discharge of Indenture" have not been complied with, any redemption notice may state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed and that if sufficient funds have not been received by the Trustee by the opening of business on the redemption date, such notice shall be of no effect. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

Conversion of Interest Rate Modes

The Interest Rate Mode for the Bonds is subject to Conversion from time to time on or after December 1, 2023 at the option of the Company in accordance with the terms of the Indenture, upon notice from the Bond Registrar to the registered owners of the Bonds. Upon Conversion, the Bonds will be subject to mandatory purchase as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Mandatory Purchase of Bonds

General. The Bonds will be subject to mandatory purchase on Conversion at a purchase price equal to the principal amount thereof plus accrued and unpaid interest. Notice to owners of such mandatory purchase will be given by the Bond Registrar by first class mail at least 20 days prior to the purchase date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture.

Remarketing and Purchase of Bonds. The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, unless otherwise instructed by the Company, the Remarketing Agent will use its commercially reasonable best efforts to remarket Bonds purchased. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

The purchase price of Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys made available by the Company.

The Company is obligated to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. Any such purchases by the Company will not result in the extinguishment of the purchased Bonds. The Company currently maintains lines of credit or other liquidity facilities in amounts determined by it to be sufficient to meet its current needs and expects to continue to maintain such lines of credit or other liquidity facilities from time to time to the extent determined by it to be necessary to meet its then-current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the Bonds have no right to draw under any line of credit or other liquidity facility maintained by the Company. There is no provision in the Indenture or the Loan Agreement requiring the Company to maintain such financing arrangements which may be discontinued at any time without notice. The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

Payment of Purchase Price. Payment of the purchase price of any Bond will be payable on the purchase date upon delivery of such Bond to the Tender Agent on such date; provided that such Bond must be delivered to the Tender Agent at or prior to 11:00 a.m. (New York City time). When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent. If the purchase date is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on such purchase date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on such purchase date. Any owner who so fails to deliver such Bond for purchase on (or before) the purchase date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

Security

Payment of the principal or redemption price of and interest on the Bonds will be secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount or redemption price of the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal or redemption price of and interest on the Bonds will be further secured by the First Mortgage Bonds. The principal amount of the First Mortgage Bonds will equal the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds ("Redemption Demand"), or if all first mortgage bonds outstanding under the First Mortgage

Indenture shall have become immediately due and payable, such First Mortgage Bonds will begin to bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds and the First Mortgage Indenture."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the Bonds. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriter make no representation as to the accuracy of such information.

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository for the Bonds). Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Loan Agreement and the First Mortgage Bonds, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Underwriter cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

THE ISSUER, THE COMPANY, THE UNDERWRITER AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

Revision of Book-Entry-Only System; Replacement Bonds

In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the

Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of $5,000 and multiples thereof. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the designated office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for mandatory purchase as described under "Mandatory Purchase of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

Summary of the Loan Agreement

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.

General

The term of the Loan Agreement will commence as of its date and end on the earliest to occur of February 1, 2026 or the date on which all of the Bonds have been fully paid or provision has been made for such payment pursuant to the Indenture. See "Summary of the Indenture — Discharge of Indenture."

The Company will agree to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal or redemption price of and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company will also agree to pay (i) the agreed upon fees and expenses of the Trustee, the Bond Registrar, the Tender Agent and the Paying Agent and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent and the Tender Agent, as may be applicable, under the Indenture, (ii) the expenses in connection with any redemption of the Bonds and (iii) the reasonable expenses of the Issuer.

The Company will covenant and agree with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company will cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture (see "Summary of the Bonds — Mandatory Purchase of Bonds — Remarketing and Purchase of Bonds").

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the fees and reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar and the Tender Agent, and amounts related to indemnification) will be assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

Maintenance of Tax Exemption

The Company and the Issuer will agree not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Issuance and Delivery of First Mortgage Bonds

For the purpose of providing security for the Bonds, the Company will execute and deliver to the Trustee the First Mortgage Bonds on the date of issuance of the Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will equal the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a Redemption Demand, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have become immediately due and payable, such First Mortgage Bonds will then bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will then be payable. See, however, "Summary of the Indenture — Waiver of Events of Default."

Upon payment of the principal or redemption price of and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

Payment of Taxes

The Company will agree to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under the heading "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain, preserve and keep the Project or cause the Project to be maintained, preserved and kept in good repair, working order and condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as "pollution control facilities" as defined in Section 103.246(1)(a) of the Act. However, the Company will have no obligation to maintain, preserve, keep, repair, replace or renew any portion of the Project, the maintenance, preservation, keeping, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements are deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project as "pollution control facilities" as defined in Section 103.246(1)(a) of the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer, the Company or the First Mortgage Trustee receives net proceeds from insurance or a condemnation award in connection therewith, the Company must, subject to the requirements of the First Mortgage Indenture, (i) cause such net proceeds to be used to repair or restore the Project or (ii) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part."

Project Insurance

The Company will insure the Project in accordance with the provisions of the First Mortgage Indenture.

Assignment, Merger and Release of Obligations of the Company

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, will not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another entity, provided the acquirer of the Company's assets or the entity with which it will consolidate with or merge into is a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, is qualified and admitted to do business in the Commonwealths of Kentucky and Virginia, assumes in writing all of the obligations and covenants of the Company under the Loan Agreement and delivers a copy of such assumption to the Issuer and the Trustee.

Release and Indemnification Covenant

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

Events of Default

Each of the following events constitutes an "Event of Default" under the Loan Agreement:

(i) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "Summary of the Indenture — Defaults and Remedies"), and such failure shall cause an event of default under the Indenture;

(ii) failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in paragraph (i) above, for a period of 30 days after written notice by the Issuer or Trustee, subject to extension by the Issuer and the Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action with respect thereto is instituted within such period and is being diligently pursued;

(iii) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;

(iv) the occurrence of an Event of Default under the Indenture; or

(v) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to execute and deliver the First Mortgage Bonds to the Trustee on or before the date of issuance of the Bonds in an amount equal to the principal amount of the Bonds; (iii) to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another entity unless certain provisions of the Loan Agreement are satisfied; and (iv) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening and continuance of an Event of Default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal or redemption price of or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such Event of Default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds and the First Mortgage Indenture" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such Event of Default must be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

Options to Prepay; Obligation to Prepay

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the headings "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the heading "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company will be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price must be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to 100% of the principal amount plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent, the Bond Registrar and the Tender Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

Amendments and Modifications

No alteration, amendment, change, supplement or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any alteration, amendment, change, supplement or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such alterations, amendments, changes, supplements or modifications, the Loan Agreement may be altered, amended, changed, supplemented or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "Summary of the Indenture — Supplemental Indentures" for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an alteration, amendment, change, supplement or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the third paragraph of "Summary of the Indenture — Supplemental Indentures."

Summary of the First Mortgage Bonds and the First Mortgage Indenture

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.

General

In connection with the issuance of the Bonds, the First Mortgage Bonds will be issued in a principal amount equal to the principal amount of the Bonds and will constitute a new series of first mortgage bonds under the First Mortgage Indenture (see "Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First

Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an *event of default* under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non negotiable, and will be non transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

Security; Lien of the First Mortgage Indenture

General. Except as described below under this heading and under "— Issuance of Additional First Mortgage Bonds," and subject to the exceptions described under "— Satisfaction and Discharge," all first mortgage bonds issued under the First Mortgage Indenture, including the First Mortgage Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens and exclusions as described below, a first mortgage lien on substantially all of the Company's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to below as "Mortgaged Property."

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See "— Release of Property."

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See "— Issuance of Additional First Mortgage Bonds."

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See "— Consolidation, Merger and Conveyance of Assets as an Entirety."

Excepted Property. The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture or required so to be; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company's business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company's subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

Permitted Liens. The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics', construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

Issuance of Additional First Mortgage Bonds

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars ($1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. As of June 30, 2018, first mortgage bonds in an aggregate principal amount of $2,341,852,405 were outstanding under the First Mortgage Indenture, of which $341,852,405 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;

- the aggregate principal amount of *retired securities* (as described below); or

- an amount of cash deposited with the First Mortgage Trustee.

Property additions generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts in accordance with U.S. generally accepted accounting principles.

Retired securities means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

At June 30, 2018, approximately $2.2 billion of *property additions* and $258.9 million of *retired securities* were available to be used as the basis for the authentication and delivery of first mortgage bonds. The Company intends to issue the First Mortgage Bonds on the basis of *retired securities*.

Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money* liens upon the property to be released and delivered to the First Mortgage Trustee;

- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);

- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);

- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);

- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released that is delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and

- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money lien* means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

Withdrawal of Cash

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the cost or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

Events of Default

An "*event of default*" occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90-day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

Remedies

Acceleration of Maturity. If an *event of default* occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

Rescission of Acceleration. After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful; and
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see "— Waiver of Default and of Compliance" below.

Appointment of Receiver and Other Remedies. Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

Control by Holders; Limitations. Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders' directions may not conflict with any law or the First Mortgage Indenture; and
- the holders' directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders' direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;

- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and

- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

Notice of Default. The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under "— Events of Default" (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

Waiver of Default and of Compliance. The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

Consolidation, Merger and Conveyance of Assets as an Entirety

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia; and

    - expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and the performance of all of the Company's covenants under the First Mortgage Indenture; and

    - such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property; and

- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and

- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or

- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves (3/2) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This *fair value* will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

Modification of First Mortgage Indenture

Without Holder Consent. Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

With Holder Consent. Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby:

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or the method of calculating such rates)or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;

- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;

- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or

- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

Satisfaction and Discharge

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

Evidence to be Furnished to the First Mortgage Trustee

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

Miscellaneous Provisions

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "—Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

Governing Law

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

Summary of the Indenture

The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.

Security

Pursuant to the Indenture, the Issuer will assign and pledge to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund).

The Bonds will be further secured by the First Mortgage Bonds to be delivered to the Trustee (see "Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds"). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

No Pecuniary Liability of the Issuer

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, will constitute or give rise to any pecuniary liability of the Issuer or any charge upon any of its assets or its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the application of the amounts assigned to payment of the principal or redemption price of and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the "Bond Fund") and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used solely and only for the payment of the principal or redemption price of and interest on the Bonds, and for the payment of the reasonable fees and expenses to which the Trustee, Bond Registrar, Tender Agent, Authenticating Agent, any Paying Agent and the Issuer are entitled pursuant to the Indenture or the Loan Agreement. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

The 2007 Bond Fund

The proceeds from the issuance of the Bonds will be deposited by the Trustee in the County of Carroll, Kentucky, Environmental Facilities Revenue Bond Fund, 2007 Series A (Kentucky Utilities Company Project) created by the Indenture of Trust dated as of March 1, 2007 for the 2007 Bonds in an amount adequate to pay, together with other moneys to be provided by the Company, all principal of and accrued interest on the 2007 Bonds to become due and payable on their scheduled redemption date.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the "Rebate Fund") and will be maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture will become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal or redemption price of and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Tender Agent, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

Surrender of First Mortgage Bonds

Upon payment of any principal or redemption price of and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture (see "Discharge of Indenture" above), First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

(i) failure to make due and punctual payment of any installment of interest on any Bond within a period of five Business Days from the due date;

(ii) failure to make due and punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable, provided that no Event of Default has occurred in respect of failure to receive such purchase price for any Bond if the Company has made the payment at the opening of business on the next Business Day as described in the last paragraph under "Summary of the Bonds — Mandatory Purchase of Bonds — Remarketing and Purchase of Bonds" above;

(iii) failure by the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee or by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an Event of Default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;

(iv) the occurrence of an "Event of Default" under the Loan Agreement (see "Summary of the Loan Agreement — Events of Default"); or

(v) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding and upon receipt of indemnity reasonably satisfactory to it, must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see "Summary of the First Mortgage Bonds and the First Mortgage Indenture"), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders. Interest on the Bonds will cease to accrue on the date of issuance of a declaration of acceleration of payment of the principal and interest on the Bonds.

In exercising such rights, the Trustee will take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners, taking into account the security and remedies afforded to holders of first mortgage bonds under the First Mortgage Indenture. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal or redemption price of and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds has been declared due and payable, all such moneys will be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and the payment of any sums due and payable to the United States pursuant to Section 148(f) of the Code, (ii) to the payment of all interest then due on the Bonds, and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys will be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee fails or refuses to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture will be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment will be authorized against the general credit of the Issuer.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and will do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding have been declared to be due and payable as a result of a default under the Indenture and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due has been obtained or entered, (i) the Company causes to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which would become due otherwise than by reason of such declaration (with interest thereon as provided in the Indenture) and the expenses of the Trustee in connection with such default and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) have been remedied, then such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment will be binding upon all Bondholders. No such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (v) under the subheading "Defaults and Remedies" above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture will affect the right of a registered owner to enforce the payment of principal or redemption price of and interest on the Bonds after the maturity thereof.

Voting of First Mortgage Bonds Held by Trustee

The Indenture provides that the Trustee, as the holder of the First Mortgage Bonds, will be required to attend such meeting or meetings of bondholders under the First Mortgage Indenture or, at its option, deliver its proxy in connection therewith, as relate to matters with respect to which it, as such holder, is entitled to vote or consent. The Trustee, either at any such meeting or meetings or otherwise when the consent of the holders of the First Mortgage Bonds is sought without a meeting, will be required to vote all First Mortgage Bonds then held by it, or consent with respect thereto, proportionately with the vote or consent of the holders of all other securities of the Company then outstanding under the First Mortgage Indenture eligible to vote or consent, as evidenced by, and as to be delivered to the Trustee, a certificate signed by the temporary chairman, the temporary secretary, the permanent chairman, the permanent secretary, or an inspector of votes at any meeting or meetings of security holders under the First Mortgage Indenture, or by the First Mortgage Trustee in the case of consents of such security holders which are sought without a meeting, which states what the signer thereof reasonably believes are the proportionate votes or consents of the holders of all securities (other than the First Mortgage Bonds) outstanding under the First Mortgage Indenture and counted for the purposes of determining whether such security holders have approved or consented to the matter put before them; provided, however, that the Trustee shall not so vote in favor of, or so consent to, any amendment or modification of the First Mortgage Indenture, which, if it were an amendment or modification of the Indenture, would require the consent of the Bondholders as described in the third paragraph under the heading "Summary of the Indenture – Supplemental Indenture," without the prior consent and approval of Bondholders which would be so required; provided further that as a condition to the Trustee voting or giving such consent, the Trustee shall have received a certificate of a Company representative or an opinion of counsel, at its election, stating that such voting or consent is authorized or permitted by the Indenture.

Supplemental Indentures

The Issuer and the Trustee may enter into indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture, without the consent of or notice to the Bondholders, in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to or confer upon the Trustee, as may lawfully be granted, additional rights, remedies, powers or authorities for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights, powers or authorities reserved to or conferred upon the Issuer, (vi) to make any other modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make other amendments not otherwise permitted by (i), (ii), (iii), (iv) or (v) of this paragraph to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds, including any modifications necessary to upgrade or maintain the then applicable ratings on the Bonds or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Notwithstanding the foregoing, the Company, with the consent of the Trustee, may at any time further secure the Bonds by means of a letter of credit, other credit facility or other guarantee or collateral.

Exclusive of supplemental indentures for the purposes set forth in the preceding two paragraphs, the consent of registered owners holding a majority in aggregate principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture may permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer requests the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice must set forth the nature of the proposed supplemental indenture and must state that copies thereof are on file at the designated office of the Trustee for inspection. If, within sixty days (or such longer period as prescribed by the Issuer or the Company) following the giving of such notice, the registered owners holding the requisite amount of the Bonds outstanding have consented to the execution thereof, no Bondholder will have any right to object or question the execution thereof.

No supplemental indenture will become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company will be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the designated office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Enforceability of Remedies

The remedies available to the Trustee, the Issuer and the owners upon an Event of Default under the Loan Agreement, the Indenture or the First Mortgage Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement, the Indenture and the First Mortgage Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Tax Treatment

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code. It is Bond Counsel's further opinion that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds will be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds will be exempt from all ad valorem taxes in Kentucky. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. The alternative minimum tax has been repealed with respect to corporations for taxable years beginning after December 31, 2017.

The opinion of Bond Counsel assumes and is conditioned on the payment and discharge of all of the 2007 Bonds on or before the 90th day following the date of issuance of the Bonds. The Company has agreed (i) to apply all of the proceeds of the bonds to the payment and discharge of the 2007 Bonds within 90 days following the date of issuance of the Bonds, (ii) to provide additional funds necessary, on or prior to a day within 90 days following the date of issuance of the Bonds, to defease and discharge the 2007 Bonds on such day and (iii) to give irrevocable instructions on the date of issuance of the Bonds to the trustee in respect of the 2007 Bonds directing the redemption of the 2007 Bonds.

The opinion of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes will be based upon and will assume the accuracy of certain representations of facts and circumstances, including with respect to the Project, which are within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel will express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuer to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer will each covenant to take all actions required of each to assure that the interest on the Bonds will be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds will be subject to the following exceptions and qualifications:

(i) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(ii) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel will express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

A draft of the opinion of Bond Counsel relating to the Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the Bonds is attached as Appendix B to this Official Statement.

Legal Matters

Certain legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds are subject to the approving opinion of Bond Counsel. Bond Counsel has in the past, and may in the future, act as counsel to the Company with respect to certain matters. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Jones Day, Chicago, Illinois, and John R. Crockett III, General Counsel, Chief Compliance Officer and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriter by its counsel, McGuireWoods LLP, Chicago, Illinois.

Underwriting

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc., which is serving as the underwriter for the Bonds (the "Underwriter"), and U.S. Bank National Association, which is serving as Trustee, Paying Agent, Tender Agent and Registrar for the Bonds.

The Underwriter has agreed, subject to the terms of the bond purchase agreement between the Issuer and the Underwriter, to purchase the Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriter is committed to purchase all the Bonds if any Bonds are purchased. In connection with the underwriting of the Bonds, the Underwriter will be paid by the Company a fee in the amount of $89,375, which excludes reimbursement for certain reasonable out-of-pocket expenses.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market prices of such Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriter and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriter or the Issuer may be required to make in respect thereof.

In the ordinary course of its business, the Underwriter and certain of its affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

Continuing Disclosure

Because the Bonds will be special and limited obligations of the Issuer, the Issuer is not an "obligated person" for purposes of Rule 15c2-12 (the "Rule") promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Underwriter to comply with the requirements of the Rule, the Company will covenant in a continuing disclosure undertaking agreement to be delivered to the Trustee for the benefit of the holders of the Bonds (the "Continuing Disclosure Agreement") to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company will covenant to take the following actions:

(i) The Company will provide to the Municipal Securities Rulemaking Board ("MSRB") (in electronic format) (a) annual financial information of the type set forth in Appendix A to this Official Statement (including any information incorporated by reference in Appendix A) and (b) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company's fiscal year.

(ii) The Company will file in a timely manner not in excess of 10 business days after the occurrence of the event with the MSRB notice of the occurrence of any of the following events (if applicable) with respect to the Bonds: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) any unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (g) modifications to rights of the holders of the Bonds, if material; (h) the giving of notice of optional or unscheduled redemption of any Bonds, if material, and tender offers; (i) defeasance of the Bonds or any portion thereof; (j) release, substitution, or sale of property securing repayment of the Bonds, if material; (k) rating changes; (l) bankruptcy, insolvency, receivership or similar event of the Company; (m) the consummation of a merger, consolidation or acquisition involving the Company, or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or a change of name of a trustee, if material.

(iii) The Company will file in a timely manner with the MSRB notice of a failure by the Company to file any of the information referred to in paragraph (i) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit of the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

The Company is a party to continuing disclosure agreements with respect to 5 series of pollution control bonds. The MSRB's Electronic Municipal Market Access website reflects that within the past five years the Company did not timely file certain information in connection with December 2014 and June 2016 downgrades of credit ratings for four series of Company pollution control bonds resulting from the downgrade of the bank providing the letters of credit supporting such bonds. Moody's Investors Service, Inc. downgraded the long-term rating of the four Company pollution control bonds on December 2, 2014. The Company was not aware of the downgrade until February 10, 2015 and filed the required disclosures on February 11, 2015. On May 23, 2016, S&P Global Ratings updated its methodology and assumptions for rating jointly supported financial obligations. As a result, S&P Global Ratings downgraded the long-term rating on the four Company pollution control bonds as of June 3, 2016. The Company was not aware of the downgrade until July 24, 2017 and filed the required disclosures on July 24, 2017. The Company has had, and continues to have, procedures in place in order to make material event notices and financial statement filings on an ongoing basis.

This Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer has not and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the heading "The Issuer."

COUNTY OF CARROLL, KENTUCKY

By: /s/ Bobby Lee Westrick
County Judge/Executive

Appendix A

Kentucky Utilities Company

Kentucky Utilities Company ("KU"), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2017, KU provided electricity to approximately 525,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia and three customers in Tennessee. KU's service area covers approximately 4,800 non-contiguous square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by natural gas fueled combined cycle combustion turbines, a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 10 municipalities.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. KU's affiliate, Louisville Gas and Electric Company ("LG&E"), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky. KU's obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of LG&E, PPL Corporation or KU's other affiliates will be obligated to make any payment on the Loan Agreement or the Bonds.

The information above concerning KU is only a summary and does not purport to be comprehensive. Additional information regarding KU, including audited financial statements, is available in the documents listed under the heading "Documents Incorporated by Reference," which documents are incorporated by reference herein.

Selected Financial Data
(Dollars in millions)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating revenues	$ 885	$ 843	$ 1,744	$ 1,749	$ 1,728
Operating income[(1)]	$ 236	$ 244	$ 518	$ 531	$ 457
Net income	$ 148	$ 119	$ 259	$ 265	$ 234
Total assets	$ 8,353	$ 8,086	$ 8,254	$ 8,085	$ 8,011
Long-term debt obligations (including amounts due within one year) [(1)]	$2,329	$2,237	$ 2,328	$ 2,327	$ 2,326
Ratio of earnings to fixed charges[(2)]	4.6	4.9	5.2	5.3	5.3

Capitalization:	June 30, 2018	% of Capitalization
Long-term debt and notes payable	$ 2,462	41.9%
Common equity	3,414	58.1%
Total capitalization	$ 5,876	100.0%

(1) Effective January 1, 2018, KU adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. As a result, all periods reported in the June 30, 2018 Form 10-Q reflected the retrospective adoption of this guidance. Amounts reported in the table above for December 31, 2017, December 31, 2016 and December 31, 2015, also reflect retrospective reclassifications from other operation and maintenance expense to other income (expense) of $1 million, $2 million, and $2 million, respectively.

(2) For purposes of this ratio, "Earnings" consist of earnings (as defined below) from continuing operations plus fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense and the portion of rental expense that represents an imputed interest component. Earnings from continuing operations consist of income before taxes and the mark-to-market impact of derivative instruments.

The selected financial data presented above for the three fiscal years ended December 31, 2017, and as of December 31 for each of those years, have been derived from the Company's audited financial statements. The selected financial data presented above for the six months ended June 30, 2018 and 2017 have been derived from the Company's unaudited financial statements for the six months ended June 30, 2018 and 2017. The Company's audited financial statements for the three fiscal years ended December 31, 2017, and as of December 31 for each of those years, are included in the Company's Form 10-K for the year ended December 31, 2017 incorporated by reference herein. The Company's unaudited financial statements for the six months ended June 30, 2018 are included in the Company's Form 10-Q for the quarter ended June 30, 2018 incorporated by reference herein. "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2017 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-Q for the quarter ended June 30, 2018, as well as the Combined Notes to Financial Statements as of December 31, 2017, 2016 and 2015 and the Combined Notes to Condensed Financial Statements (Unaudited) as of June 30, 2018 and December 31, 2017 and for the six-month periods ended June 30, 2018 and 2017, should be read in conjunction with the above information. Deloitte & Touche LLP audited the Company's financial statements for the fiscal years ended December 31, 2017 and December 31, 2016. Ernst & Young LLP audited the Company's financial statements for the fiscal year ended December 31, 2015.

Risk Factors

Investing in the Bonds involves risk. Please see the risk factors in KU's Annual Report on Form 10-K for the year ended December 31, 2017, which is incorporated by reference in this Appendix A. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix A. Risks and uncertainties not presently known to KU or that KU currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

Available Information

KU is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and, accordingly, files reports and other information with the Securities and Exchange Commission (the "SEC"). Such reports and other information on file can be inspected and copied at the public reference facilities of the SEC, currently at 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC's Web Site (http://www.sec.gov). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Documents Incorporated by Reference

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2017;

2. Form 10-Q Quarterly Reports of KU for the quarters ended March 31, 2018 and June 30, 2018; and

3. Form 8-K Current Reports of KU filed with the SEC on January 16, 2018 and March 26, 2018.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Official Statement shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in this Official Statement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Treasurer, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.

Appendix B

(FORM OF OPINION OF BOND COUNSEL)

September 5, 2018

Re: $17,875,000 County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2018 Series A (Kentucky Utilities Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the "**County**"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Environmental Facilities Revenue Refunding Bonds, 2018 Series A (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of $17,875,000 (the "**2018 Series A Bonds**"). The 2018 Series A Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "**Act**"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "**Company**") for the current refunding of $17,875,000 aggregate principal amount of the County's Environmental Facilities Revenue Bonds, 2007 Series A (Kentucky Utilities Company Project), dated May 24, 2007 (the "**Refunded 2007 Series A Bonds**"), which were issued for the purpose of financing a portion of the costs of the acquisition, construction, installation, and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station in Carroll County, Kentucky (the "**Project**"), as provided by the Act.

The 2018 Series A Bonds mature on February 1, 2026 and bear interest initially at the Long Term Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The 2018 Series A Bonds will be subject to optional and mandatory redemption before maturity at the times, in the manner, and upon the terms set forth in the 2018 Series A Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the 2018 Series A Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of August 1, 2018 (the "**Loan Agreement**"), by and between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the 2018 Series A Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Refunded 2007 Series A Bonds. The Company has agreed to make loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on, and redemption premium, if any, on the 2018 Series A Bonds as they become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed, and delivered by the County; and that the Loan Agreement is a legal, valid, and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of August 1, 2018 (the "**Indenture**"), by and between the County and U.S. Bank National Association, as trustee (the "**Trustee**"), securing the 2018 Series A Bonds and setting forth the covenants and undertakings of the County in connection with the 2018 Series A Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the 2018 Series A Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed, and delivered by the County; and that the Indenture is a legal, valid, and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the 2018 Series A Bonds have been validly authorized, executed, and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid, and binding special and limited obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The 2018 Series A Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings, and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the 2018 Series A Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any 2018 Series A Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"); and (ii) interest on the 2018 Series A Bonds is a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. The alternative minimum tax has been repealed with respect to corporations for taxable years beginning after December 31, 2017. In arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the 2018 Series A Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with after the issuance of the 2018 Series A Bonds in order that interest on the 2018 Series A Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the 2018 Series A Bonds after the issuance of the 2018 Series A Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2018 Series A Bonds. We express no opinion (i) regarding the exclusion of interest on any 2018 Series A Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the 2018 Series A Bonds; or (ii) as to the treatment for purposes of federal income taxation of interest on the 2018 Series A Bonds upon a Determination of Taxability. We are further of the opinion that interest on the 2018 Series A Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the 2018 Series A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the 2018 Series A Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the 2018 Series A Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the 2018 Series A Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the 2018 Series A Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the 2018 Series A Bonds. Ownership of the 2018 Series A Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the 2018 Series A Bonds.

We have received opinions of John R. Crockett III, General Counsel, Chief Compliance Officer, and Corporate Secretary of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. Nicholas Marsh, County Attorney of Carroll County, Kentucky, and relied upon said opinion with respect to the matters therein. The opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges, or encumbrances on the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the 2018 Series A Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

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KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 88

Responding Witness: Daniel K. Arbough

Q-88. Provide copies of credit reports for PPL, Louisville Gas & Electric, and Kentucky Utilities between January 1, 2017 and the present from the major credit rating agencies (Moody's, S&P, and Fitch).

A-88. See attachments 1 through 11 for copies of the credit rating agency reports. Note that Fitch does not rate any of the companies.

MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
5 November 2018

Rate this Research

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Source: Moody's Investors Service

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PPL Corporation

Frequently asked questions about recent regulatory and legislative developments

In 2018, several regulatory and legislative developments have the potential to impact PPL's credit quality, including the UK regulator's published framework for the next control period and new legislation for alternative rate-making in Pennsylvania. This report addresses recent investor questions about the implications of these developments for PPL.

» **PPL has a lower overall business risk than its US peers.** PPL's UK and Pennsylvania electric transmission and distribution (T&D) utilities account for a combined 63% of its rate base, operate in supportive regulatory environments and are shielded from direct commodity or carbon transition risks because they don't own any generation. PPL's remaining operations, vertically integrated regulated utilities in Kentucky that own a lot of coal-fired generation, are more exposed to carbon transition risks.

» **UK operations provide a steady stream of dividends to the parent, supporting overall credit quality.** Through 2023, we expect continued strong operating performance from Western Power Distribution Plc (WPD, Baa3 stable), PPL's UK subsidiary. WPD operates under the UK's transparent regulatory environment, and is expected to dividend annual cash distributions to PPL between $300 million and $500 million. However, earnings from the start of the next regulatory period, in 2023, will be subject to decisions following the regulators' recently published framework, including on allowed returns. The risk of renationalizing British energy networks also lingers, potentially deepening subordination of holding companies.

» **Alternative ratemaking in Pennsylvania will be credit positive.** A new Pennsylvania law allowing for alternative ratemaking mechanisms will benefit PPL Electric Utilities Corporation (PPL Electric, A3 stable). Once implemented, we think the new mechanisms will provide greater transparency and stability to their cash flow and earnings.

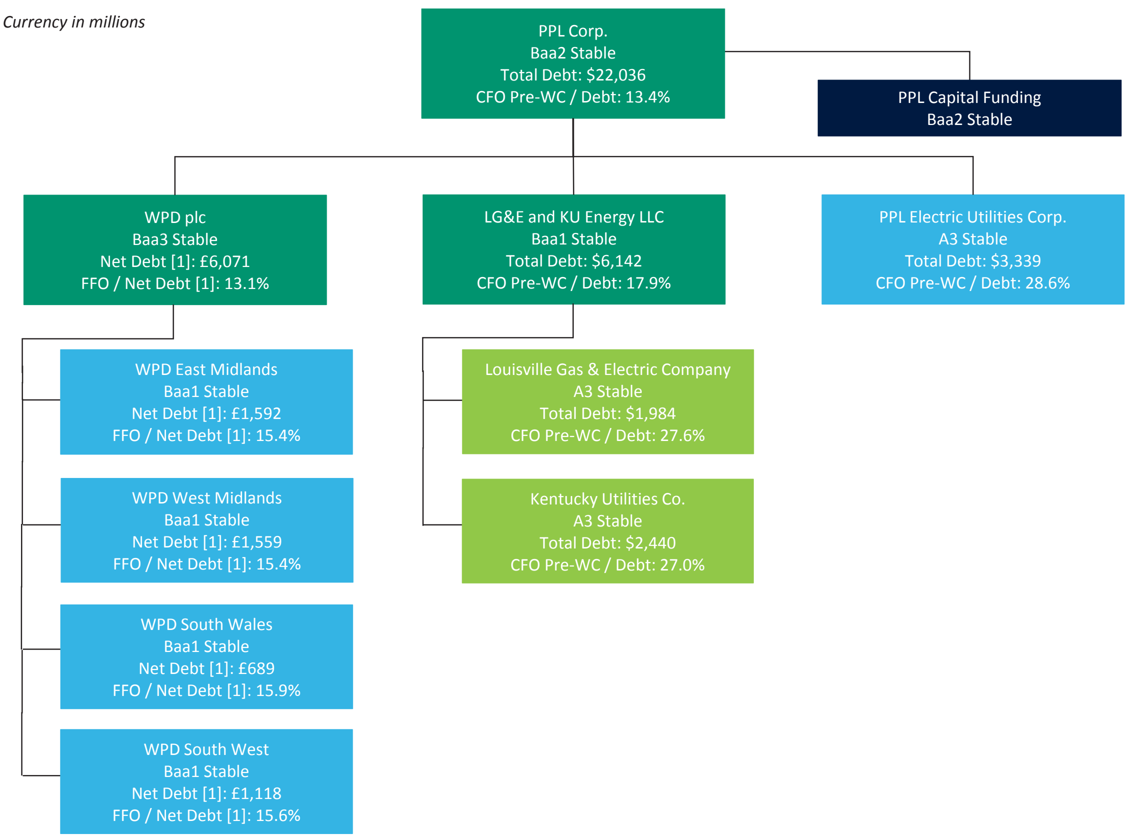
» **Kentucky's heavy reliance on coal-fired generation exposes PPL to long-term carbon transition risk.** About 33 TWh, or 85%, of the electricity produced by PPL's Kentucky utilities are from coal-fired power plants and we expect coal to continue to be the primary fuel. The dispatch of the power plants is based on the lowest generating cost and we believe the political and regulatory support for coal in Kentucky will provide some pathway to mitigate PPL's carbon transition risk.

» **US tax reform is credit negative for PPL.** The US Tax Cuts and Jobs Act reduced the cash flows of PPL's US regulated utilities by roughly $150 to $250 million. However, PPL largely mitigated this impact with a $1.7 billion equity issuance in early 2018.

Why do we view PPL's business risk as being lower than that of its US peers?

Because it owns a large, low risk network in the UK. Compared to its US utility holding company peers, PPL's unique mix of businesses reduces its overall business risk. PPL is one of the few US-based utility holding company with regulated utility operations in the UK, where the regulatory environment, administered by the Office of Gas and Electricity Markets (Ofgem), is more transparent and predictable than in the US. Under the current RIIO (revenue = incentive + innovation + outputs) model, PPL retains a predetermined share of any cost savings and has significant scope to earn formulaic incentives for superior operating performance.

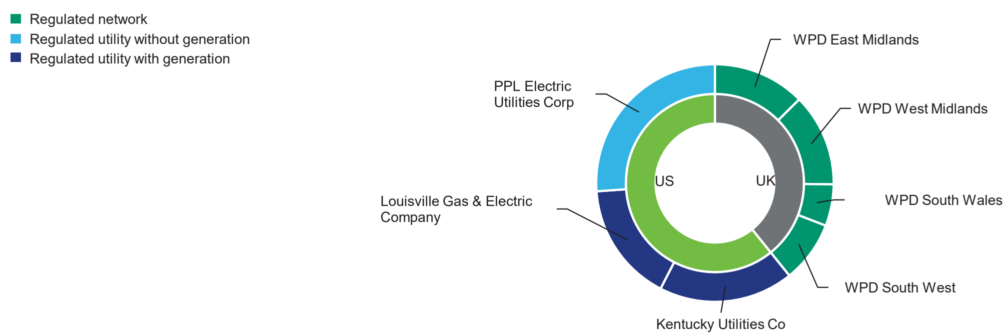
Exhibit
PPL Corporation's organizational structure [2]
As of 12/31/2017
Currency in millions



[1] As of 3/31/2018; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Metrics are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics, Company reports

Based on PPL's 2018 estimates, WPD accounts for about $10.3 billion, or 38%, of the company's total rate base. PPL's US utility operations are comprised of PPL Electric, Kentucky Utilities Co. (KU, A3 stable) and Louisville Gas & Electric Company (LG&E, A3 stable). PPL Electric's rate base is about $7.1 billion, or roughly 26% of the total rate base, while PPL's Kentucky utilities KU and LG&E represent about 36%, or $9.9 billion, of the total rate base.

Exhibit 2
Unique mix of businesses which includes utility operations in the UK



Source: Company reports

PPL Electric has no direct exposure to commodity or power plant operational risks because it does not own any generation assets. Instead, it owns and operates only transmission and distribution assets, which are regulated by the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (PAPUC), respectively. The regulatory framework under FERC is formulaic, providing greater transparency and certainty than state regulations in ratemaking. We view the regulatory environment in Pennsylvania as credit supportive, owing to the various rider mechanisms used to shorten the regulatory lag between general rate cases. Pennsylvania recently enacted a new law for the alternative ratemaking mechanism, including revenue decoupling for electric utilities, which will be credit positive once the new mechanisms are implemented.

By contrast, KU and LG&E own and operate power plants, exposing them to operations and commodity risk. About 85% of their power output is generated from coal-fired generating capacity, adding greater carbon transition risk to PPL's overall business risk profile. However, the state of Kentucky and its utility regulations as enforced by the Kentucky Public Service Commission (KPSC) are supportive of using coal as the primary fuel source for electricity generation. The KPSC applies a “lowest reasonable cost” analysis to the recovery of costs related to coal usage and other environmental expenses through such mechanisms as its fuel adjustment clause and environmental cost recovery surcharge.

Exhibit 3
Overall regulatory environment for PPL is supportive

	Mechanisms	Allowed ROE
Pennsylvania	Distribution System Improvement Charge, Smart Meter Rider, Storm Cost Recovery, Alternative Ratemaking, Forward Test Year for distribution rate cases	11.68%
Kentucky	Environmental Cost Recovery, Fuel Adjustment Clause, Gas Line Tracker, Forward Test Year for base rate cases, Gas Supply Clause, Demand Side Management	9.70%
United Kingdom	Real-time recovery of capex, Incentive revenues available for strong performance and innovation, Mechanism to retain 70% of cost efficiencies	6.4%[1]

[1] Approximately 9.4% including inflation of regulatory asset value
Source: Company reports

How do PPL's UK operations contribute to its overall credit quality?

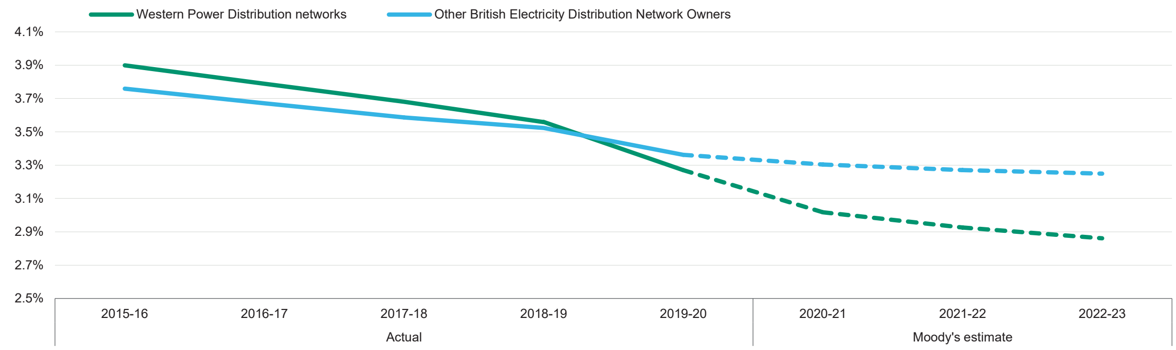
WPD owns four electricity distribution networks with a track record of excellent operational performance, as well as a first-tier efficiency ranking relative to their peers, according to the metrics established by Ofgem. UK regulation of power networks is more transparent than the state regulatory environments of Pennsylvania and Kentucky. The current RIIO-ED1 framework, which runs until

March 2023, provides greater certainty for how a distribution network operator can earn and generate cash flow compared to the regulatory framework in PPL's other operating areas. The UK operations also provide regulatory and operational diversity to PPL's overall portfolio and dilute higher risk associated with its Kentucky generation portfolio.

Unlike the US regulatory framework, the cost of debt is not a pure pass-through for energy networks in Britain. Instead, it is, as part of allowance, set based on an index that is updated annually. WPD's allowed real returns will fall over the remaining years of RIIO-ED1 as the long-term decline in market yields is reflected in the annual update. As an unintended consequence of WPD's "fast track" award in the last price review, this decline in allowed returns will be more acute than for other British electricity networks. Although WPD's financing costs are lower than most other groups, we expect it to underperform cost-of-debt allowances over the remainder of RIIO-ED1.

However, the credit profile of WPD and its subsidiaries are constrained by the group's high leverage at around 80% of regulatory asset value (RAV).

Exhibit 4
Western Power Distribution's allowed return will fall over the rest of the current price control period
Allowed return on regulatory asset value for WPD and other UK distribution network owners



Sources: Ofgem, Moody's estimates

WPD expects to achieve a real (pre-inflation) return on regulatory equity – a measure of returns excluding over- or under-spend on financing costs – of 9.9% over the 2015-23 period, above the 6.4% base allowed return. Unlike other British networks groups, which generally expect to achieve significant outperformance on operating costs, WPD's additional returns come largely from incentive income as a result of its success in reducing the frequency and duration of power supply interruptions.

Based on the current RIIO framework and operations, we expect PPL's UK operations to contribute annual cash distributions ranging between $300 million and $500 million based on their 80% overall leverage target. Because of the current RIIO framework, which is fixed over the remainder of the current pricing control period through 2023, and, despite declining allowed returns, continuing strong operational performance by WPD will support the expected cash distribution to PPL.

What will happen to WPD's returns and cash flows after 2023?

We expect WPD's returns and cash flows after 2023 to decline from the current levels. Ofgem has recently published its framework for the next price control period (RIIO-2), which begins in April 2023 for electricity distribution (see Regulated Electric & Gas Networks: British energy regulator's proposals would reduce returns for network owners, 12 March 2018). Although the electricity distribution price controls still have four years to run, Ofgem needs to settle key aspects of the framework earlier because the next pricing controls for transmission and gas distribution networks begin in April 2021.

Although the framework itself continues to be transparent, we expect RIIO-ED2 framework to limit the ability of networks to outperform and earn financial incentives. In particular, the framework consultation proposed that allowed returns should be based on a cost of equity in the 3%-5% range, if set in March 2018, before inflation using the retail prices index (RPI) as the inflation index, below the 6.4% used in setting WPD's current returns. Ofgem has also set out proposals to make systematic outperformance less likely, in our view. The reduction in expected returns is credit negative for all UK networks.

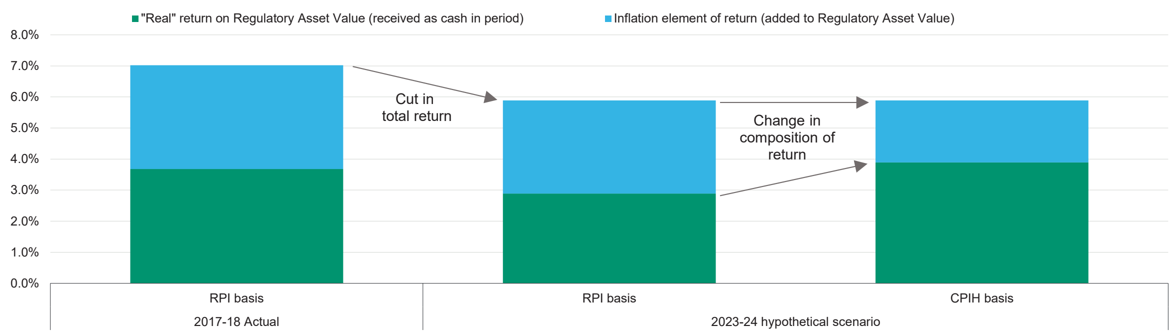
However, two other changes in RIIO-2 are likely to somewhat mitigate the immediate impact of lower returns on WPD's cash flows:

» **Higher cost of debt allowance.** WPD will likely move to the same cost-of-debt allowance as other electricity distribution network groups, ending the anomaly that has caused it to receive a lower allowance than peers in RIIO-ED1. We estimate that this will boost allowed returns by around 0.3 percentage point in the first year of RIIO-ED2.

» **Larger part of return received in cash.** Regulated utilities in Britain receive a large part of their total return through the inflation of their RAV. In RIIO-ED2, Ofgem has confirmed that it will switch to using the consumer prices index including owner occupiers' housing costs (CPIH), in place of the RPI. Because CPIH is typically around 1 percentage point lower than RPI, a larger part of the total return will be received in cash and less through additions to the RAV.

Taken together, we estimate that WPD's real allowed return will be slightly lower than today, even though total returns are likely to be sharply lower. However, the change to CPIH increases near-term cash flows at the expense of asset growth, and, therefore, debt capacity and future cash flows (see Transition to CPI creates risks for water and energy networks, 13 January 2016).

Exhibit 5
Move to CPIH inflation index will support cash flows in the short term
Estimated changes in total (nominal) return and composition of return during the first year of RIIO-ED2*



*Scenario for 2023-24 (first year of RIIO-ED2) estimated based on midpoint of 3-5% return range, cost of debt based on extended trailing average methodology, and Moody's estimate of market interest rates and inflation
Source: Ofgem, Moody's estimates

What else could affect PPL's access to WPD's cash flows?

As part of RIIO-2, Ofgem is considering measures to support the credit quality of regulated operating companies that could result in greater subordination for holding companies. In particular, a proposed "revenue floor" mechanism in discussion could allow operating companies to raise additional revenue from customers if needed to meet debt repayments, but would then block dividend distributions until this amount was repaid. This would be a major change, as there are currently few limitations on moving cash and debt between operating and holding companies, unless an operating company has the lowest investment grade credit rating with any major rating agency and is placed on a negative outlook. A revenue floor mechanism, while likely improving the credit quality of the operating companies, would significantly deepen the subordination of holding company creditors and raise questions around the stability and predictability of the regulatory framework.

Potential renationalization of the networks could affect PPL's future access to WPD's cash flows. The UK's opposition Labour Party has proposed to take the country's energy networks, as well as water and rail companies, into public ownership (see FAQ on Labour's proposed renationalisation, 16 October 2017). For electricity distribution networks, the party has suggested that new "regional energy boards" would manage system operation, later acquiring the operating companies' assets in exchange for government bonds. Although this is a very longer-term potential development, it would pose a significant risk for holding companies like WPD and PPL if the networks are renationalized.

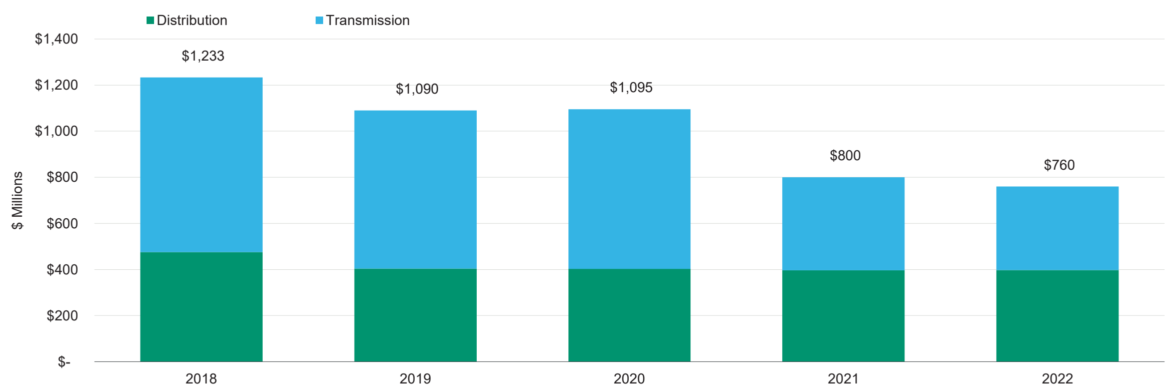
How will alternative ratemaking mechanisms in Pennsylvania affect PPL?

The new legislation authorizing alternative ratemaking mechanisms in Pennsylvania is credit positive for both PPL Electric and PPL because it will provide greater transparency and stability to their cash flow and earnings.

In early July, Gov. Tom Wolf signed a new utility alternative regulation bill authorizing the PAPUC to approve innovative ratemaking mechanisms for electric and water utilities in the state. Such mechanisms include revenue decoupling, performance-based rate plans, formula rates and multi-year rate plans, which are similar to the ratemaking framework in the UK. The PAPUC will establish the new rules within six months of enactment, and all Pennsylvania investor-owned utilities, including PPL Electric, will be allowed to pursue alternative ratemaking frameworks, including decoupling. However, it is unlikely that PPL Electric will request any changes to its ratemaking framework until its next general rate case, which it doesn't expect to be filed before 2020.

Exhibit 6

Transmission capital investment to decline, while distribution investment holds steady for PPL Electric



Source: Company Reports

Over the next five years, PPL Electric plans to invest about $5 billion, about 42% of which it has earmarked for its distribution system, as shown in Exhibit 6. High capital investments are likely to pressure certain credit metrics slightly for PPL Electric due to the delayed timing of the investment and its recovery. However, the new alternative ratemaking mechanisms will improve transparency in ratemaking and potentially allow faster recovery of investment costs, a credit positive.

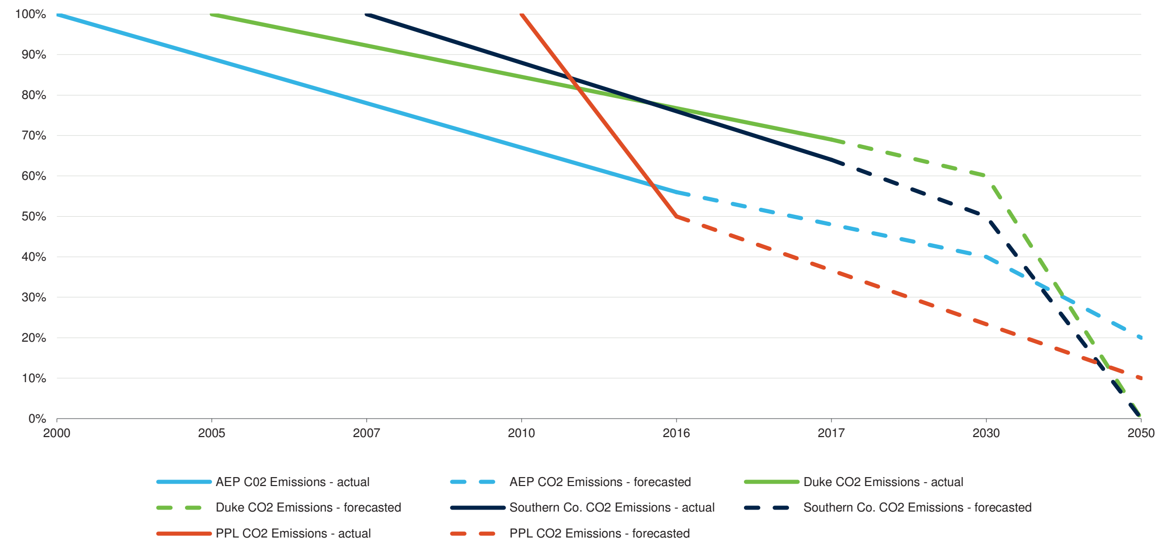
We expect PPL Electric's ratio of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt to range between 19% and 23% over the next couple of years. Our forecast does not reflect any potential impact from the new legislation. We expect the new legislation's positive impact to be included after its next general rate case.

Does PPL's coal-dependent generation portfolio in Kentucky face significant carbon-transition risks?

Yes. Due to their heavy reliance on coal-fired power plants in Kentucky, PPL's carbon-transition risk is focused in Kentucky. PPL's utility subsidiaries KU and LG&E face greater carbon-transition risks relative to their utility peers. Overall, carbon-transition risks are lower for PPL compared to its utility holding company peers because the majority of its utility operations are transmission and distribution with no direct CO_2 emissions. These long-term risks include the potential for higher operating costs and increased stranded asset exposure. However, there is a strong political support for coal in Kentucky and the state's regulatory framework provides mechanisms to recover environmental investments related to their coal-fired power plants.

PPL divested in 2015 its competitive generation business which consisted of approximately 15 GW of generating capacity, significantly reducing its future carbon transition risk. With this divestiture, PPL reduced its CO_2 emissions by 50% in 2016 from its 2010 emission levels. In January 2018, PPL announced a goal to reduce the company's CO_2 emission levels by 70% by 2050 from 2010 levels. In its two-degree scenario analysis included in PPL's 2017 climate assessment report, it showed its CO_2 emissions could be reduced further based on retiring its Kentucky power plants at the end of their useful lives.

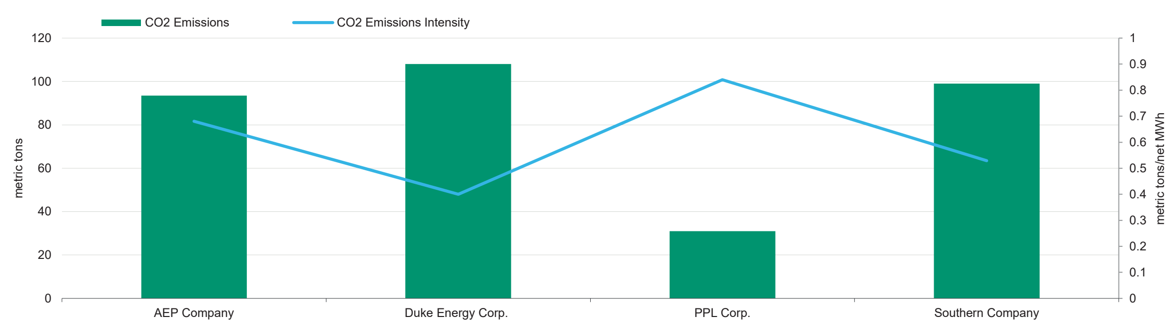
Exhibit 7
PPL's CO2 emission reduction was a result of competitive generation assets divestiture and coal plant retirement in Kentucky



Source: Companies' reports; Moody's Investors Service

However, its carbon intensity, CO2 emissions per MWh produced, remains high because of its heavy reliance on coal as its primary fuel for power generation.

Exhibit 8
Despite emitting much less CO2 compared to its peers, every MWh of power generated from PPL's portfolio emits more CO2



[1] The CO2 emissions intensity for Duke Energy represents Moody's calculation. Our calculation uses total energy produced, which includes owned generation and purchased power.
Source: Companies' reports; Moody's Investors Service

Currently there is no federal mandate to reduce CO2 emissions from US electricity production given that the Clean Power Plan was stayed by the US Supreme Court in 2016. Coal-fired power plants account for about 33 TWh, or 85%, of the electricity produced by PPL's Kentucky utilities. These utilities dispatch their power plants based on the lowest generating cost to serve their customers. Historically, the KPSC's decisions to approve cost recovery and rate increases were based on the lowest cost option deemed to be reasonable and prudent. Thus, we expect coal to continue to be the primary fuel source for these utilities' power generation in the foreseeable future.

PPL's Kentucky utilities have retired about 800 MW of coal-fired generating capacity in 2015 and expect to retire an additional 272 MW by the end of 2019. In addition, KU and LG&E completed a multi-year $2.8 billion investments to add environmental controls to four of their coal-fired power plants to reduce emissions. KU and LG&E plan to make additional investments over the next five years totaling about $828 million. PPL expect to recover these environmental investments through an environmental cost recovery surcharge, shortening the regulatory lag.

Based on the retirement of about 908 MW of coal-fired generating capacity, KU and LG&E reduced their CO2 emission by over 16% over the past five years. However, we do not expect a further reduction in their CO2 emissions based on KU and LG&E's current investment plan beyond 2019.

Exhibit 9
Coal plant retirements helped PPL's Kentucky utilities reduce CO2 emissions
KU and LG&E's carbon-dioxide emissions, 2013-2017

	Capacity (MW)	CO2 Emission (MMT)	Average Capacity Factor	Change in CO2 Emission
2013	6,209	32.2	65.2%	
2014	6,132	31.6	64.9%	*-1.9%*
2015	6,114	28.1	57.9%	*-11.1%*
2016	5,379	26.4	63.0%	*-6.0%*
2017	5,379	26.9	63.0%	*1.9%*

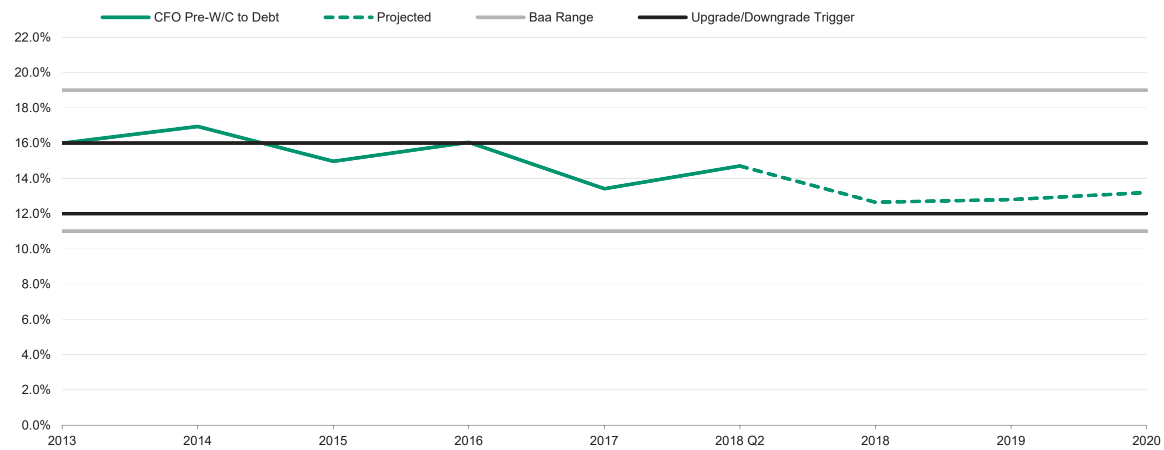
Sources: SPGMI, Moody's Investors Service

How has US tax reform affected PPL's credit metrics?

It reduced cash flow, as expected. The US Tax Cuts and Jobs Act lowered the US corporate tax rate to 21% from 35% and eliminated the acceleration of depreciation for the tax purpose. This reduced the cash flows of PPL's regulated utilities and led to what we estimate was about a 100 basis-point decrease in PPL's consolidated CFO pre-WC to debt ratio. However, PPL largely mitigated this impact with a $1.7 billion equity issuance in early 2018.

With this equity issuance and some benefits from foreign currency hedge gains, PPL will be able to maintain its CFO pre-WC to debt in the 12%-14% range over the next three years. Also, we believe the regulated operating subsidiaries will continue to be supported by credit-supportive regulation and the financing of their large capital investments with a balanced mix of debt and equity. Because of the PPL parent company's overall lower business risk profile, we believe a lower downgrade threshold is appropriate. A rating downgrade could be considered for PPL if its consolidated CFO pre-WC to debt falls below 12% on a sustained basis.

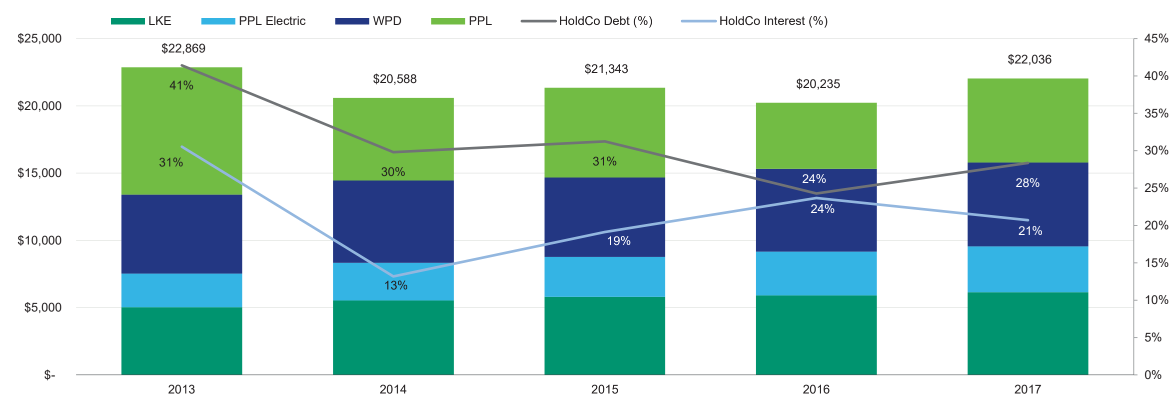
Exhibit 10
CFO pre-WC to debt to decline from historical levels but still appropriate for its credit profile
PPL's CFO pre-WC to debt ratio, with our projections through 2020



Source: Moody's Financial Metrics

Another negative impact from the tax reform was related to the parent-level debt at the PPL parent, which had about $6.3 billion of holding company debt at the end of 2017. It is a combination of debt issued at the PPL parent level and intermediate holding companies' level in the US and UK. It accounts for approximately 28% of total consolidated debt of $22 billion at the end of 2017. At the parent level, PPL records a net loss due to having operating expenses as well as interest expense. These net losses were used to slightly offset PPL's consolidated tax obligations. However, the tax benefit created by the interest expenses paid at the parent level was reduced when the corporate tax rate was reduced to 21% from 35%.

Exhibit 11
PPL maintains a relatively high parent debt level
Composition of PPL debt, 2013-2017



Source: Moody's Financial Metrics

Appendix

Exhibit 12
Peer Comparison of US Holding Companies [1]
($MM)

	PPL Corporation [2]	Berkshire Hathaway Energy Company	American Electric Power Company	Duke Energy Corporation
	Baa2 Stable	A3 Stable	Baa1 Stable	Baa1 Stable
Total Rate Base	$ 27,300	$ 42,200	$ 38,000	$ 58,840
Total Revenue	$ 7,745	$ 19,327	$ 15,977	$ 24,059
Total interest expense	$ 965	$ 1,864	$ 1,016	$ 2,229
Total Net Income	$ 1,253	$ 3,119	$ 1,928	$ 3,044
Net PP&E	$ 34,003	$ 68,265	$ 53,530	$ 89,861
Total Equity	$ 11,473	$ 28,175	$ 18,637	$ 42,269
Total Debt	$ 23,045	$ 42,417	$ 25,947	$ 55,771
CFO	$ 3,455	$ 6,636	$ 4,708	$ 7,750
Total Dividend	$ 1,111	$ -	$ 1,221	$ 2,455
Earned ROE	11.3%	11.6%	10.6%	7.3%
Dividend Payout	89%	0%	63%	81%
CFO Pre-WC to Debt	14.7%	16.2%	19.3%	14.6%
CFO Pre-WC - Div to Debt	9.9%	16.2%	14.6%	10.2%
Total Debt to Rate Base	84%	101%	68%	95%

[1] As of LTM 6/30/2018
[2] PPL rate base reflects company's 2018 estimated figures
Source: Moody's Investors Service

Exhibit 3
Peer Comparison of Pennsylvania Utilities [1]
($MM)

	PPL Electric Utilities Corporation [2]	PECO Energy Company	Pennsylvania Electric Company	Duquesne Light Company
	A3 Stable	**A2 Stable**	**Baa1 Stable**	**A3 Stable**
Total Rate Base	$ 7,100	$ 6,600	$ 1,614	$ 2,260
Total Revenue	$ 2,278	$ 2,963	$ 894	$ 947
Total interest expense	$ 151	$ 129	$ 66	$ 59
Total Net Income	$ 425	$ 431	$ 106	$ 142
Net PP&E	$ 8,911	$ 8,343	$ 2,109	$ 3,066
Total Equity	$ 4,377	$ 3,587	$ 1,307	$ 1,211
Total Debt	$ 3,734	$ 3,072	$ 1,325	$ 1,391
CFO	$ 965	$ 654	$ 280	$ 371
Total Dividend	$ 404	$ 442	$ 85	$ 70
Earned ROE	10.2%	12.1%	8.2%	12.0%
Dividend Payout	95%	103%	80%	49%
CFO Pre-WC to Debt	26.9%	24.4%	17.7%	25.4%
CFO Pre-WC - Div to Debt	16.0%	10.0%	11.3%	20.4%
Total Debt to Rate Base	53%	47%	82%	62%

[1] As of LTM 6/30/2018
[2] PPL rate base reflects company's 2018 estimated figures
Source: Moody's Investors Service

Exhibit 14
Peer Comparison of Kentucky Utilities [1]
($MM)

	Kentucky Utilities [2]		Louisville Gas & Electric Company [2]		Kentucky Power Company		Duke Energy Kentucky, Inc.	
	A3 Stable		A3 Stable		Baa2 Negative		Baa1 Stable	
Total Rate Base	$	5,500	$	4,400	$	1,600	$	850
Total Revenue	$	1,786	$	1,492	$	659	$	455
Total interest expense	$	99	$	74	$	41	$	18
Total Net Income	$	288	$	242	$	60	$	64
Net PP&E	$	6,876	$	5,490	$	1,836	$	1,444
Total Equity	$	3,405	$	2,596	$	706	$	568
Total Debt	$	2,515	$	2,067	$	940	$	585
CFO	$	661	$	516	$	125	$	91
Total Dividend	$	252	$	151	$	18	$	-
Earned ROE		8.6%		9.6%		8.7%		12.6%
Dividend Payout		88%		62%		29%		0%
CFO Pre-WC to Debt		25.3%		23.2%		14.5%		17.2%
CFO Pre-WC - Div to Debt		15.3%		15.9%		12.6%		17.2%
Total Debt to Rate Base		46%		47%		59%		69%

[1] As of LTM 6/30/2018
[2] PPL rate base reflects company's 2018 estimated figures
Source: Moody's Investors Service

Exhibit 15
Peer Comparison of UK Holding Companies
(£MM)

	Western Power Distribution Plc [1]	Northern Powergrid Holdings Company [2]
	Baa3 Stable	Baa1 Stable
Total RAV	£ 7,578	£ 3,139
Total Revenue	£ 1,621	£ 781
Total interest expense	£ 273	£ 106
Total Net Income	£ 587	£ 190
Net PP&E	£ 12,025	£ 5,854
Total Equity	£ 4,304	£ 2,388
Net Debt	£ 6,021	£ 2,119
FFO	£ 741	£ 341
Total Dividend	£ 93	£ 51
Earned ROE	14.4%	8.3%
Dividend Payout	16%	27%
FFO to Net Debt	12.3%	16.1%
RCF to Net Debt	10.8%	13.7%
Net Debt to RAV	79%	67%

[1] As of FY 3/31/2018
[2] As of FY 12/31/2017
Source: Moody's Investors Service

Exhibit 16
Peer Comparison of UK Utilities [1]
(£MM)

	Western Power Distrib (East Midlands) Plc	Western Power Distrib (West Midlands) Plc	Western Power Distrib (South Wales) Plc	Western Power Distrib (South West) Plc	South Eastern Power Networks Plc	Southern Gas Networks Plc
	Baa1 Stable	Baa1 Stable	Baa1 Stable	Baa1 Stable	Baa1 Stable	Baa1 Stable
Total RAV	£ 2,411	£ 2,423	£ 1,129	£ 1,682	£ 1,826	£ 3,802
Total Revenue	£ 491	£ 497	£ 246	£ 364	£ 421	£ 746
Total interest expense	£ 63	£ 80	£ 38	£ 38	£ 43	£ 102
Total Net Income	£ 182	£ 181	£ 88	£ 139	£ 99	£ 184
Net PP&E	£ 4,048	£ 3,806	£ 1,822	£ 2,596	£ 2,832	£ 4,249
Total Equity	£ 1,304	£ 1,319	£ 666	£ 895	£ 907	£ 897
Net Debt	£ 1,592	£ 1,559	£ 689	£ 1,118	£ 1,202	£ 2,792
FFO	£ 256	£ 239	£ 107	£ 183	£ 176	£ 282
Total Dividend	£ 113	£ 165	£ 47	£ 95	£ 105	£ 1,047
Earned ROE	14.8%	14.1%	13.6%	15.9%	11.3%	14.2%
Dividend Payout	62.2%	91.3%	53.3%	68.3%	106.0%	568.8%
FFO to Net Debt	16.1%	15.3%	15.6%	16.4%	14.7%	10.1%
RCF to Net Debt	9.0%	4.7%	8.8%	7.9%	5.9%	-27.4%
Net Debt to RAV	66.0%	64.3%	61.1%	66.5%	65.8%	73.4%

[1] As of FY 3/31/2018
Source: Moody's Investors Service

Moody's related publications

Sector Comments

- Regulated Electric and Gas Networks - UK: Risks are rising, but regulatory fundamentals still intact, May 2018
- Regulated Electric & Gas Networks: British energy regulator's proposals would reduce returns for network owners, March 2018

Credit Opinions

- PPL Corporation: Update to credit analysis, June 2018
- LG&E and KU Energy LLC: Update to credit analysis, October 2018
- Kentucky Utilities Co.: Update to credit analysis, October 2018
- Louisville Gas & Electric Company: Update to credit analysis, October 2018
- PPL Electric Utilities Corporation: Update to credit analysis, August 2018
- Western Power Distribution Plc: Update to credit analysis, April 2018
- Western Power Distrib (East Midlands) Plc: Update to credit analysis, March 2018
- Western Power Distrib (West Midlands) Plc: Update to credit analysis, March 2018
- Western Power Distrib (South Wales) Plc: Update to credit analysis, March 2018
- Western Power Distribution (South West) Plc: Update to credit analysis, March 2018

Outlook

- Regulated utilities - US: 2019 outlook shifts to negative due to weaker cash flows, continued high leverage, June 2018

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CREDIT OPINION
7 June 2018

Update

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RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PPL Corporation

Update to credit analysis

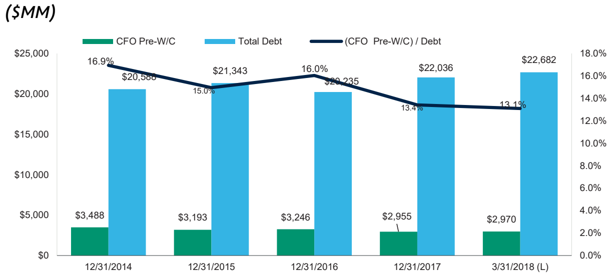
Summary

PPL Corporation's (PPL) credit strengths include the low business risk profile of its Pennsylvania and UK regulated utilities, as well as the credit supportive regulatory environments where all of its utilities operate, including Kentucky. As a fully regulated utility holding company, PPL generates approximately 70% of its earnings and cash flows from a networks or transmission and distribution (T&D) platform in the US and UK. The remaining 30% comes from vertically integrated utility operations in Kentucky, which include 8 GW of power generation that is mostly coal-fired. All of these operations provide good earnings and cash flow visibility.

We see the UK regulatory environment as one of the most transparent and credit supportive environments globally. However, there is substantial debt leverage at the parent holding company and large capital investment programs, resulting in significant negative free cash flow. Although PPL has foreign currency exchange exposure due to its operations in the UK, PPL has been actively mitigating the risk by placing hedges on foreign currency exchange rates.

We expect PPL's cash flow from operations before changes in working capital (CFO pre-WC) to debt to range from 12% to 14% over the next 2 years, slightly weaker than its 2017 actual level. The US Tax Cuts and Jobs Act had a negative impact on PPL's overall cash flow since approximately half of its cash flow is generated in the US. We estimate the impact on PPL's key cash flow to debt metric to be around a 100 basis point (bps) decrease. The impact was mitigated by a $1.7 billion equity issuance completed early May 2018.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt
($MM)



Source: Moody's Financial Metrics™

Credit Strengths

» Stable earnings and cash flow generated by regulated utilities

» Constructive regulatory environments supporting rate base growth

» Consistent financial metrics

Credit Challenges

» Large capital investment programs

» Relatively high level of holding company debt

» Foreign currency exchange exposure

Rating Outlook

The stable outlook reflects PPL's relatively low business risk, as well as our expectations that it will continue to generate stable financial metrics, including a ratio of CFO pre-WC to debt in the 12%-14% range. The stable outlook also assumes that its regulated operating subsidiaries will continue to be supported by constructive regulatory environments and its large capital investments will be financed with a balanced mix of debt and equity.

Factors that Could Lead to an Upgrade

PPL's rating could be upgraded if its consolidated financial metrics improve, including CFO pre-WC to debt above 16% on a sustained basis. An upgrade is also possible if PPL lowers its percentage of holding company debt to below 20% of total consolidated debt on a sustained basis. A rating upgrade could also be considered if PPL's utility subsidiaries are upgraded.

Factors that Could Lead to a Downgrade

A rating downgrade could be considered if its consolidated key metrics deteriorate significantly, including if its CFO pre-WC to debt falls below 12% on a sustained basis. Also, a significant increase in parent debt could pressure the rating downward. Additional rating pressure could occur should PPL experience any unexpected negative regulatory developments, its ability to earn appropriate returns on its investments is reduced significantly, or if its utility subsidiaries are downgraded. Furthermore, negative ratings actions could occur if the company fails to properly manage its foreign exchange exposure, associated with earnings generated from its UK operations.

Key Indicators

Exhibit 2
PPL Corporation

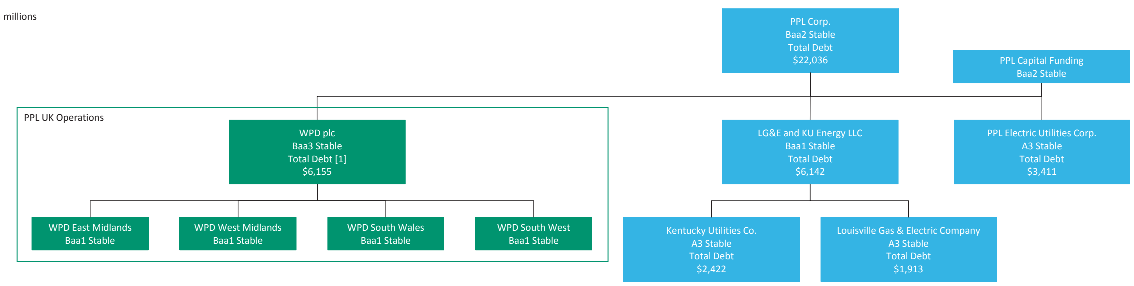
	Dec-14	Dec-15	Dec-16	Dec-17	Mar-18 (L)
CFO pre-WC + Interest / Interest	4.9x	4.4x	4.5x	4.2x	4.1x
CFO pre-WC / Debt	16.9%	15.0%	16.0%	13.4%	13.1%
CFO pre-WC – Dividends / Debt	12.2%	10.2%	10.9%	8.5%	8.3%
Debt / Capitalization	54.6%	60.9%	58.8%	61.9%	61.7%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

PPL Corporation is a utility holding company headquartered in Allentown, PA with three regulated jurisdictions: United Kingdom, Kentucky, and Pennsylvania. Its UK regulated operations include Western Power Distribution Plc (WPD, Baa3 stable), a pure wires-only distribution company with no retail exposure. Kentucky regulated utilities include Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable), which operate under a traditional integrated utility model. The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (Baa1 stable). Its Pennsylvania operation is comprised of PPL Electric Utilities Corporation (PPLEU, A3 stable), a transmission business mostly regulated by the Federal Energy Regulatory Commission (FERC), and a distribution operation regulated by the Pennsylvania Public Utility Commission (PAPUC). PPL, through its Kentucky operating subsidiaries, controls or owns about 8,000 MW of generating capacity in the US and sells electricity and natural gas to about 10.5 million customers in the US and UK.

Exhibit 3
Organizational Structure
As of 12/31/2017
$ in millions



[1] As of 3/31/2017
[2] Total debt is based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics, Company

Detailed Credit Considerations

Stable and consistent earnings and cash flow generated by regulated utilities

PPL, as a regulated utility holding company, has low business risk compared to many of its peers because all of its subsidiaries are regulated utility companies. Approximately 50% of PPL's net income is produced by its UK based distribution operations, which are consolidated under the intermediate holding company Western Power Distribution Plc. The remaining 50% of cash flow is produced in the US with about 30% generated from its two Kentucky utilities, Louisville Gas & Electric Company and Kentucky Utilities Company and the remaining 20% from its utility in Pennsylvania, PPL Electric Utilities Corporation.

As a distribution network operator (DNO) in the UK, WPD's subsidiaries do not have any commodity production or procurement responsibilities, effectively eliminating all of its exposure to commodities. Although PPLEU is a wires-only utility, it maintains some commodity exposure because it has provider of last resort (POLR) obligations for the customers who do not choose an alternative power supplier within PPLEU's service territory. The risk associated with this exposure is small given the transparent purchased power cost pass-through mechanism that is in place. Additionally, PPLEU mitigates this risk by entering into full requirement supply agreements to serve its POLR customers. PPL's Kentucky utilities have the most exposure to commodities as vertically integrated utilities because they own and operate generation assets to produce power for their customers. Although LG&E and KU have direct commodity exposure, Kentucky allows the cost of fuel to be recovered through a fuel adjustment clause within four months.

Constructive US regulatory environments supporting rate base growth

We view the US regulatory environments for PPL to be credit supportive, resulting in stable and predictable earnings and cash flow generated from roughly $15 billion of rate base. The Kentucky Public Service Commission (KPSC) has approved various tracker mechanisms that provide for timely cost recovery outside of a general rate case. These tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management Cost (DSM) Recovery Mechanism.

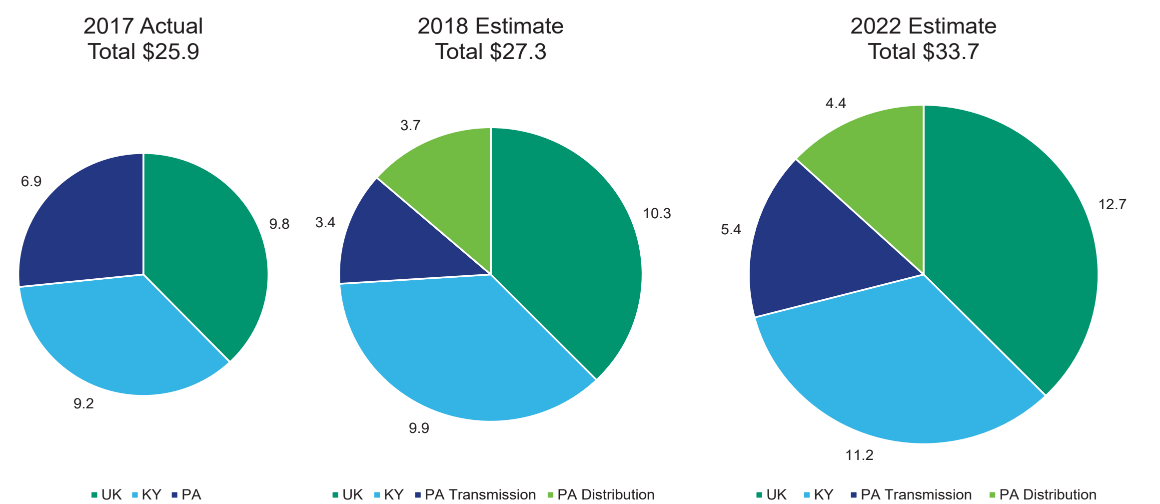
The last rate case in Kentucky was settled. The KPSC issued its modified order in June 2017, which authorized a base electricity rate increase of $52 million for KU and a base electricity rate increase of $57 million and base gas rate of $7 million for LG&E based on an authorized return on equity (ROE) of 9.7%. The rate case resulted in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1%, respectively, at LG&E. These became effective 1 July 2017. Overall, we view the settlement as credit supportive and representative of a constructive regulatory environment which continues to settle rate cases in a timely manner.

In June 2017, the KPSC also approved an authorized ROE of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized ROE levels of 9.8% for coal projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of this new authorized ROE is not expected to be significant in 2017.

In Pennsylvania, PPLEU has historically received reasonable and timely decisions in its rate cases, including the most recent distribution rate case that was settled in November 2015. In this rate case, the company was authorized to use a forward test year and reached a settlement with interveners within 6 months. PPLEU requested an 18.5% revenue increase and received about 74% of the request ($124 million versus $167.5 million) in the settlement.

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. PPL expects the rate base contribution from its FERC-regulated transmission assets to be around 47% in 2017 and to increase to 55% by 2022. We consider FERC regulation to be predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susquehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive-based rate treatments. We note that there is an ROE complaint filed in PJM, where PPLEU is located, to reduce the FERC allowed ROE. The timing, scope and content of the final resolution are uncertain.

Exhibit 4
Projected Rate Base Growth
$ in billions



Source: Company Reports

Transparent and consistent regulatory environment in the UK

We consider the regulatory environment its WPD subsidiaries to be among the strongest and is among the most transparent globally. As the top performer among its DNO peers, the WPD utilities have benefitted from performance-based rate making mechanisms, which results in incentive bonus payments annually along with higher authorized ROE compared to its UK peers. For the regulatory year ending 30 September 2017, WPD's performance included $75 million of incentive revenues. Additionally, as the only DNO to qualify for fast-track incentives, WPD companies are allowed to retain 70% of realized cost efficiencies.

The UK electric and gas regulator Ofgem (Office of Gas and Electricity Markets) uses the RIIO (Revenue = Incentive + Innovation + Outputs) model. The reviews of RIIO determine the allowed revenues for all electricity distribution companies. The first phase of the rate review set the revenues operators are allowed to earn over the next eight years, from April 2015 to March 2023.

In early May, Ofgem decided not to hold a mid-period review in the current rate plan. The consultation period ended on 2 May 2018 and Ofgem's final review on the price control allowances is expected to be published in 2022. The second RIIO (also known as RIIO-Electric Distribution 2 or RIIO-ED2) will start in April 2023.

Exhibit 5
Western Power Distribution service area

Source: Energy Networks Association

Exhibit 6
Price control overview

			GB Electricity Distribution	
Regulator / Price Control				Ofgem / RIIO-ED1
Term of price control				2015-23
Allowed return on RAV (vanilla real)				3.56% (2018-19) 3.27% (2019-20)
Regulated Businesses	EMID	WMID	SWALES	SWEST
Regulated Asset Value (Ofgem) at March 2018	£2.35 bn	£2.35 bn	£1.06 bn	£1.56 bn

Note: Regulated Asset Value post November 2017 iteration
Source: Ofgem

Adequate financial metrics but relatively high parent debt

PPL has maintained stable financial metrics historically with its CFO pre-WC to debt in the mid-teens. However, we expect its metrics to slightly weaken to the 12%-14% range over the next 12-18 months. Metrics at these levels still position the company reasonably well relative to its low risk peers with a similar credit profile and metrics. As of the latest twelve months (LTM) period ending 31 March 2018, CFO pre-WC to debt was 14.7%. The decline in metrics is expected due to elevated capital expenditure programs as well as the negative impact from tax reform. However, prudent recovery mechanisms that are in place should result in more timely recovery of investments and help PPL to maintain its key metrics in the expected ranges. Furthermore, its recent equity issuance totaling approximately $1.7 billion also helped to mitigate the pressure on its cash flow to debt metric.

With approximately $7.4 billion of holding company debt, which includes debt at the parent holding company and intermediary holding companies in the US and UK, PPL's holding company debt accounts for approximately 35% of total consolidated debt. Holding company debt at these levels generally leads to a multiple notch differential between the parent company and its operating subsidiaries. PPL's overall credit profile, including its high parent debt level, is about two notches lower than the average credit profile of its US regulated subsidiaries.

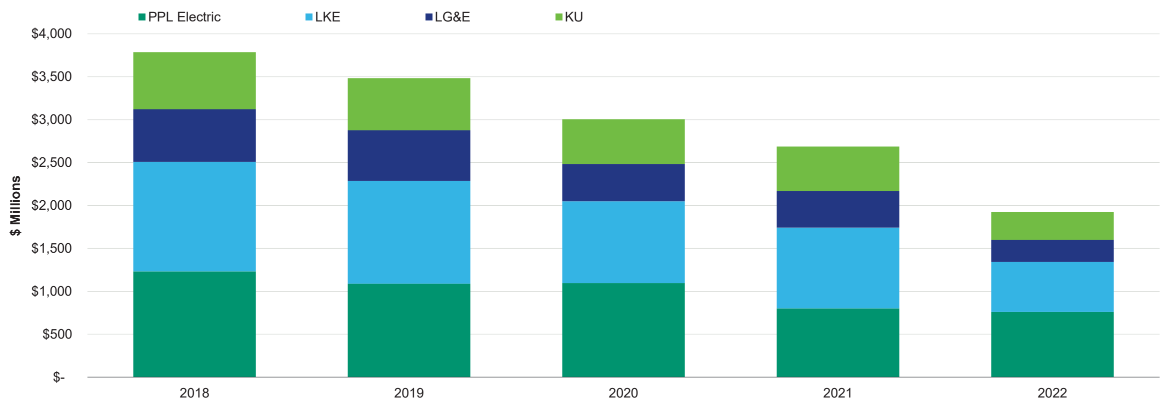
Large but declining capital investment program

Based on their most recent earnings presentation, the company is projected to spend approximately $15.4 billion in capital expenditures between 2018 and 2022. In comparison, PPL's planned capital investment represents about 53% of the company's US and UK rate base, estimated an approximately $23.5 billion.

We expect a significant amount of the investment costs will be recovered through regulatory recovery mechanisms outside of the traditional base rate case proceedings. For instance in Kentucky, the KPSC has adopted the ECR mechanism for the recovery of certain construction work-in-progress, reducing regulatory lag. In Pennsylvania, the FERC transmission formula rate, Distribution System Improvement Charges (DSIC) mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a return on investments. All together these mechanisms allow PPL to receive timely returns between 80% and 90% of its investment.

Exhibit 7

Projected Capital Investment Plan for PPL's US Regulated Utilities



Source: Company Reports

Additional risk from and strategic attention to managing foreign currency exchange exposure

With a significant portion of earnings and cash flow generated in the UK, PPL must manage its foreign currency risk closely. As of early May 2018, PPL's foreign exchange exposure is 100% hedged for 2018 and 2019 at an average rate of $1.32 per GBP and $1.39 per GBP, respectively. For 2020, PPL has hedged 50% at average rate of $1.49 per GBP. PPL plans to maintain its three year forward hedging program, which we view as a credit positive as it mitigates volatility in earnings related to currency exchange from the otherwise stable and predictable UK operations.

Over the next three years, we expect PPL to generate about 50% of its cash flow from its UK operations while about 34% of PPL's debt is either denominated in GBP or has been swapped into GBP. As a result, we do not expect a GBP depreciation to heavily influence the CFO pre-WC to debt metric. In addition, if depreciation of the GBP against other currencies leads to higher import prices in the UK, inflation as measured by the Retail Prices Index (RPI) could increase modestly. Since WPD's revenues and regulatory assets are adjusted annually by RPI, this could lead to higher earning in GBP terms.

Liquidity Analysis

We expect PPL to maintain an adequate liquidity profile over the next 12-18 months. Although PPL does not have a short-term rating, its financing subsidiary PPL Capital Funding, Inc. (PPL Capital, Baa2 stable) has a P-2 short-term rating. The borrowings at PPL Capital are unconditionally guaranteed by PPL.

PPL's liquidity is supported by stable cash flow generated from its seven low risk utility subsidiaries. In addition to a steady stream of predictable cash flow, PPL has a significant amount of cash on hand totaling $629 million as of 31 March 2018.

At the parent level, PPL maintains a $950 million syndicated credit facility expiring in January 2023 and a $300 million syndicated credit facility expiring in November 2018. Drawings under these two revolving credit facilities are not subject to a material adverse change clause. As of 31 March 2018, there was $345 million borrowed against these facilities (letters of credit), leaving approximately $905 million of capacity available. PPL Capital Funding has a commercial paper program of $1.0 billion to provide additional short-term financing. Additionally, PPL maintains a $100 million bilateral credit facility due in March 2019.

Approximately $3.4 billion of bilateral and syndicated credit facilities are issued by various entities throughout the PPL family in the US and £1.3 billion in the UK. The expiration dates of the remaining facilities located at the operating subsidiaries are between October 2018 and January 2023. As of 31 March 2018, there was approximately $2.2 billion of availability remaining in the US and £816 million in the UK out of the $5 billion approximate total. Also, WPD has a £130 million uncommitted credit facility with £126 million available as of 31 March 2018. KU also has a separate letter of credit facility and it was fully utilized.

Over the LTM period ending 31 March 2018, PPL generated approximately $2.9 billion of cash flow from operations, spent about $3.2 billion in capital investments and paid $1.1 billion in dividends resulting in negative free cash flow of approximately $1.4 billion. Due to the high level of planned capital investments, we expect PPL to be negative free cash flow after dividends over the next 12-18 months.

Rating Methodology and Scorecard Factors

Exhibit 8

Rating Factors				
PPL Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	Aa	Aa
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.3x	Baa	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	14.2%	Baa	12% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.2%	Baa	7% - 10%	Ba
d) Debt / Capitalization (3 Year Avg)	60.8%	Ba	58% - 60%	Ba
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-2	-2	-2	-2
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2018(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
WESTERN POWER DISTRIBUTION PLC	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured	Baa3
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

Appendix

Exhibit 10
Cash Flow and Credit Measures [1]
($MM)

CF Metrics	2013	2014	2015	2016	2017
As Adjusted					
FFO	**3,507**	**3,601**	**3,368**	**3,520**	**3,102**
+/- Other	152	(113)	(175)	(274)	(147)
CFO Pre-W/C	**3,659**	**3,488**	**3,193**	**3,246**	**2,955**
+/- ΔWC	(350)	210	(173)	(25)	(34)
CFO	**3,309**	**3,698**	**3,020**	**3,221**	**2,921**
- Div	903	982	1,019	1,045	1,084
- Capex	4,395	3,764	3,611	2,999	3,210
FCF	**(1,990)**	**(1,048)**	**(1,610)**	**(823)**	**(1,372)**
(CFO Pre-W/C) / Debt	16.0%	16.9%	15.0%	16.0%	13.4%
(CFO Pre-W/C - Dividends) / Debt	12.0%	12.2%	10.2%	10.9%	8.5%
FFO / Debt	15.3%	17.5%	15.8%	17.4%	14.1%
RCF / Debt	11.4%	12.7%	11.0%	12.2%	9.2%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics^{TM}

Exhibit 11
Peer Comparison [1]

	PPL Corporation Baa2 Stable			National Grid Plc Baa1 Stable			Dominion Energy, Inc. Baa2 Negative			Duke Energy Corporation Baa1 Negative			Southern Company (The) Baa2 Negative		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-15	FYE Dec-16	LTM Sep-17	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-16	FYE Dec-17	LTM Mar-18
Revenue	7,517	7,447	7,622	24,517	19,917	19,568	11,737	12,586	12,668	22,371	22,743	23,565	19,896	23,031	23,632
CFO Pre-W/C	3,246	2,955	3,341	6,768	6,718	5,572	4,010	4,702	4,769	6,833	6,655	7,444	4,548	7,081	7,361
Total Debt	20,235	22,036	22,682	39,861	40,768	35,391	36,454	38,825	38,692	41,536	49,843	54,169	48,028	51,110	52,269
(CFO Pre-W/C) / Debt	16.0%	13.4%	14.7%	15.6%	15.7%	16.7%	11.0%	12.1%	12.3%	16.5%	13.4%	13.7%	9.5%	13.9%	14.1%
(CFO Pre-W/C - Dividends) / Debt	10.9%	8.5%	9.9%	9.5%	9.9%	-2.0%	6.1%	7.0%	7.0%	11.0%	8.7%	9.2%	6.2%	9.1%	9.3%
Debt / EBITDA	4.5x	5.7x	5.8x	5.2x	6.4x	6.7x	6.4x	6.0x	6.2x	4.4x	5.1x	5.0x	6.2x	8.3x	8.3x
Debt / Book Capitalization	58.8%	61.9%	61.7%	61.0%	59.8%	54.2%	58.0%	61.1%	59.9%	44.2%	47.5%	53.0%	53.1%	59.8%	59.9%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics^{TM}

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CREDIT OPINION
6 June 2017

Update

Rate this Research

PPL Corporation

A Regulated Utility Holding Company

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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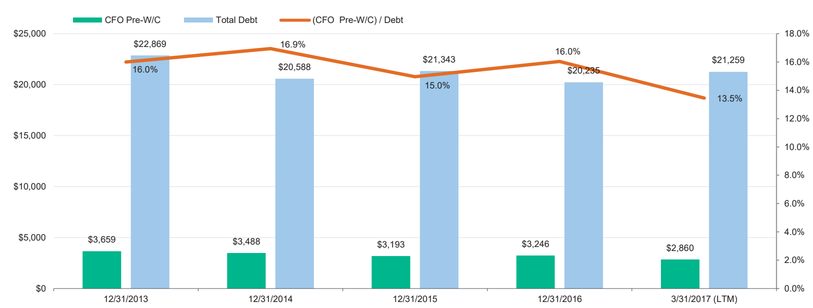
Summary Rating Rationale

PPL Corporation's (PPL) Baa2 senior unsecured rating reflects the mostly low business risk profile of its US and UK regulated utilities as well as the substantial debt leverage at the parent holding company. Its regulated utilities' operations are characterized by credit supportive regulatory environments and large capital expenditure programs, resulting in substantial negative free cash flow. As a fully regulated company, PPL generates approximately 70% of its earnings and cash flows from a networks or transmission and distribution (T&D) platform in the US and UK while the remaining 30% comes from vertically integrated utility operations, which include 8 GW of generation that are mostly coal-fired in the US, all of which provide good visibility from an earnings and cash flow perspective.

PPL's cash flow from operations before changes in working capital (CFO Pre-WC) to debt is expected to be in the 12% to 15% range and its retained cash flow (RCF) to debt in the 8% to 11% range over the next 12-18 months. Although PPL has foreign currency exchange exposure due to its operations in the UK, PPL has been actively mitigating the risk by placing hedges for foreign currency exchange rates, a credit positive.

Exhibit 1
CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt
($MM)



Source: Moody's Investors Service

Credit Strengths

» Stable earnings and cash flow generated by regulated utilities

» Constructive regulatory environments supporting rate base growth

» Consistent financial metrics

Credit Challenges

» Large capital expenditure programs

» Relatively high level of holding company debt

» Foreign currency exchange exposure

Rating Outlook

PPL's stable rating outlook reflects our expectations that it will continue to remain a regulated utility holding company with stable financial metrics, including a ratio of CFO pre-WC to debt in the 12%-15% range and RCF to debt ratio in the 8%-11% range. The stable outlook also assumes that its regulated operating subsidiaries will continue to be supported by constructive regulatory environments and its large capital expenditure will be financed with a balanced mix of debt and equity.

Factors that Could Lead to an Upgrade

PPL's rating could be upgraded if its consolidated financial metrics improve, including its CFO pre-WC to debt is in the high teens range and its RCF to debt increases to the mid-teens range, on a sustained basis. An upgrade could also be possible if PPL lowers its percentage of holding company debt to a level below 20% of total consolidated debt on a sustained basis. A rating upgrade could be considered if PPL's utility subsidiaries are upgraded.

Factors that Could Lead to a Downgrade

A rating downgrade could be considered if its consolidated key metrics deteriorate significantly, including its CFO pre-WC to debt fall to the low-teens or RCF to debt fall to mid-single digits. Also, a significant increase in the parent debt could pressure the rating downward. Additional rating pressure could occur should PPL experience any unexpected negative regulatory developments or its ability to earn appropriate returns on its investments is reduced significantly, or if its utility subsidiaries are downgraded. Furthermore, negative ratings actions could occur if the company fails to properly manage its foreign exchange exposure, associated with earnings generated from its UK operations.

Key Indicators

Exhibit 2

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PPL Corporation

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	3/31/2017(L)
CFO pre-WC + Interest / Interest	4.4x	4.9x	4.4x	4.5x	4.1x
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CFO pre-WC – Dividends / Debt	12.0%	12.2%	10.2%	10.9%	8.5%
Debt / Capitalization	57.1%	54.6%	60.9%	58.8%	59.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

- Stable and consistent earnings and cash flow generated by regulated utilities

As a holding company of seven rate regulated utilities, PPL maintains a lower business risk profile when compared to its peers. Approximately 50% of PPL's cash flow is produced by its UK based T&D operations, which are consolidated under the intermediate holding company Western Power Distribution PLC (WPD, Baa3 stable). The remaining 50% of cash flow is produced in the US with about 30% generated from its two Kentucky utilities, Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable) and the remaining 20% from its incumbent utility in Pennsylvania, PPL Electric Utilities Corporation (PPLEU, A3 stable). The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (Baa1 stable).

In general, PPL has limited commodity exposure. From a commodity exposure perspective, WPD has no commodity risk and PPLEU has limited exposure through its role as the Provider of Last Resort (POLR). LG&E and KU are vertically integrated utilities and have commodity exposure through the fuel used to produce power.

As a distribution network operator (DNO) in the UK, WPD's subsidiaries do not have any commodity production or procurement responsibilities, effectively eliminating all of its exposure to commodities. Although PPLEU is a wires-only utility, it maintains some commodity exposure because it functions as the Provider of Last Resort (POLR) for the ratepayers within its service territory. As the designated POLR entity, PPLEU is the default service provider that procure power for customers who are not served by a competitive retail energy provider. The risk associated with this exposure is very small given the transparent purchased power cost pass-through mechanism that is in place. Additionally, PPLEU mitigates this risk by entering into full-requirement supply agreements to serve its POLR customers.

PPL's Kentucky utilities have the most exposure to commodities as vertically integrated utilities, who own and operate the generation assets used to produce power for their customers. Although LG&E and KU have direct commodity exposure, Kentucky allows the cost of fuel used to generate power to be recovered through a fuel adjustment clause within four months.

- Constructive regulatory environments supporting rate base growth

PPL's utilities operate under supportive regulatory environments, which leads to stable and predictable earnings and cash flow generated from roughly $24 billion of rate base. The regulatory environment for WPD subsidiaries is considered to be the strongest, which is among the most transparent globally. As the top performer among its DNO peers, WPD utilities have benefitted from performance-based rate making mechanisms, which results in incentive bonus payments annually along with higher authorized returns on equity (ROE) when compared to other UK peers. For the regulatory year ending 31 March 2017, WPD's performance included $95 million of incentive revenues. Additionally, as the only DNO to qualify for fast-track incentives, WPD companies are allowed to retain 70% of realized cost efficiencies.

The regulatory environments in Kentucky and Pennsylvania are also considered credit supportive. The Kentucky Public Service Commission (KPSC) has approved various tracker mechanisms that provide for timely cost recovery outside of a general rate case. These tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management Cost (DSM) Recovery Mechanism.

On 19 April 2017, the Kentucky utilities and its interveners filled a settlement agreement with the KPSC to resolve its most recent rate case, which was filed in November 2016. Under the terms of the settlement, LG&E is allowed to implement a $59 million electric and a $7.5 million gas rate increase, while KU is authorized to implement a $55 million electric rate increase. The revenue increases are based on an 9.75% authorized ROE, with rates scheduled to become effective on 1 July. Overall, we view the settlement to be credit positive and representative of a constructive regulatory environment which continues to settle rate cases in a timely manner.

In Pennsylvania, PPLEU has historically received reasonable and timely decisions in its rate cases, including the most recent distribution rate case that was settled in November 2015. In this rate case, the company was authorized to use a forward test year and reached a settlement with interveners within 6 months. PPLEU requested an 18.5% revenue increase and received about 74% of the request ($124 million versus $167.5 million) in the settlement.

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. PPL expects the rate base contribution from its FERC-regulated transmission assets to be about 47% in 2017, increasing to 55% by 2021. We consider the FERC regulations to be predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susquehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive-based rate treatments. We note that there is an ROE complaint filed in PJM where PPLEU is located to reduce the FERC allowed ROE. The timing of the final resolution and the final resolution itself are uncertain as FERC currently lacks a quorum.

- Adequate and stable financial metrics

We expect PPL to maintain stable financial metrics that are consistent with its historical levels. For example, we expect PPL to continue to produce CFO pre-WC to debt in the 12%-15% range and RCF to debt in the 8%-11% range over the next 12-18 months. Metrics at these levels position the company reasonably well relative to its low risk peers in the Baa rating category. As a result of elevated capital expenditure programs and some lag in cost recovery at the regulated utility subsidiaries, the key metrics will weaken slightly. However, prudent recovery mechanisms that are in place should result in more timely recovery of investments and help PPL to maintain its key metrics in the expected ranges.

- Large capital expenditure programs

Based on their most recent earnings presentation, the company is projected to spend approximately $15.8 billion in capital expenditures between 2017 and 2021. In comparison, PPL's planned capital expenditure represents about 66% of the company's rate base estimated an approximately $24 billion at year-end 2016. There are generally two potential credit implications when a capital investment program is this significant. First, with a large capital program, the company is more exposed to project execution risk. Second, capital spending tends to place downward pressure on cash flow to debt ratios because debt is used to fund construction but most of the cash flows will only be generated after the project has been placed into service.

In PPL's case, we do not view the execution risk to be a major concern because most of the projects are not technically complex and have a moderate to low level of execution risk. In addition, the lagging effect on cash flow is less of a concern due to PPL's ability to recover a significant amount of their investments through regulatory recovery mechanisms outside of the traditional base rate case proceedings. For instance in Kentucky, the KPSC has adopted the ECR mechanism and recovery on certain construction work-in-progress, reducing regulatory lag. In Pennsylvania, the FERC transmission formula rate, Distribution System Improvement Charges (DSIC) mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a return on investments. All together these mechanisms allow PPL to recover approximately 79% of their investments in less than one year with about 70% being recovered in the first 6 months.

- Relatively high level of holding company debt

With approximately $5.8 billion of holding company debt, which includes debt at the parent holding company and intermediary holding companies in the US and UK, PPL's holding company debt accounts for approximately 33% of total consolidated debt. Holding company debt at these levels generally leads to a multiple notching differential between the parent company and its operating subsidiaries. PPL's Baa2 rating is two notches below the level of its US regulated subsidiaries, which we assess as having an average credit profile of A3.

- Additional risk and strategic attention to manage foreign currency exchange exposure

With a significant portion of earnings and cash flow generated in the UK, PPL must manage its foreign currency risk closely. In the third quarter of 2016, PPL entered into additional hedges in order to protect WPD dominated earnings from a rapidly depreciating British pound sterling (GBP) after the UK voted to leave the European Union. The liquidation of existing hedges resulted in a realized gain of $310 million, which PPL used to enter into new contracts at market rates. As of 20 April 2017, PPL's foreign exchange exposure is 100% hedged for the remainder of 2017 at an average rate of $1.21 per GBP and 99% hedged for 2018 and 2019 at average rates of $1.41 and $1.32 per GBP respectively. PPL plans to maintain its three year forward hedging program, which we view as a credit positive as it mitigates volatility in earnings related to currency exchange from the otherwise stable and predictable UK operations.

Over the next three years, we expect PPL to generate about 45% of its cash flow from its UK operation while about 36% of PPL's debt is either denominated in GBP or has been swapped into GBP. As a result, we do not expect a GBP depreciation to heavily influence the CFO Pre-WC to debt metric. In addition, if depreciation of GBP against other currencies leads to higher import prices in the UK, inflation as measured by the Retail Prices Index (RPI) could increase modestly. Since WPD's revenues and regulatory assets are adjusted annually by RPI, this could lead to higher earning in GBP terms.

Liquidity Analysis

We expect PPL to maintain an adequate liquidity profile over the next 12-18 months.

PPL's liquidity is supported by stable cash flow generated from its seven low risk utility subsidiaries. In addition to a steady stream of predictable cash flow, PPL has a significant amount of cash on hand totaling $409 million at the end of the first quarter 2017.

At the parent level, PPL maintains a $950 million syndicated credit facility expiring in January 2022 and a $300 million syndicated credit facility expiring in November 2018. Drawings under these two revolving credit facilities are not subject to a material adverse change clause. As of 31 March 2017, there was $189 million borrowed against these facilities leaving approximately $1.0 billion of capacity available. In January 2016, PPL Capital Funding increased their commercial paper program from $600 million to $1.0 billion to provide additional short-term financing. Additionally, PPL maintains a $150 million bilateral credit facility due in March 2018.

Approximately $4.4 billion of bilateral and syndicated credit facilities are issued by various entities throughout the PPL family. The majority of the remaining facilities located at the operating subsidiaries expire between 2021 and 2022. As of the end of the first quarter 2017, there was approximately $3.0 billion of availability remaining out of the $4.4 billion total. Also, WPD has a £90 million, or approximately $117 million, uncommitted credit facility. It was £86 million, or $112 million, available at the end of the first quarter 2017. KU also has a separate letter of credit facility and it was fully utilized.

Over the last twelve month period ending 31 March 2017, PPL generated approximately $2.5 billion of cash flow from operations, spent about $3.0 billion in capital expenditures and paid $1.0 billion in dividends resulting in negative free cash flow of approximately $1.5 billion. Due to the high level of planned capital expenditures, we expect PPL to have between $1.0 billion and $1.5 billion of negative free cash flow after dividends. We expect the company will finance the shortfall with a balanced mix of debt and equity and will maintain their current capital structure.

Profile

PPL Corporation is a utility holding company headquartered in Allentown, PA with three areas of regulated operations: UK regulated, Kentucky regulated, and Pennsylvania regulated. UK regulated includes Western Power Distribution PLC, a pure wires-only distribution company in the United Kingdom with no retail exposure. Kentucky regulated includes Louisville Gas & Electric Company and Kentucky Utilities Company, which operate under a traditional integrated utility model. Pennsylvania regulated is comprised of PPL Electric Utilities Corporation, a transmission business mostly regulated by Federal Energy Regulatory Commission, and a distribution operation regulated by the Pennsylvania Public Utility Commission. PPL, through its operating subsidiaries, controls or owns about 8,000 MW of generating capacity in the US and sells electricity and natural gas to about 10.4 million customers in the US and UK.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
PPL Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	Aa	Aa
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	3.5x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	14.0%	Baa	12% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.4%	Baa	8% - 11%	Baa
d) Debt / Capitalization (3 Year Avg)	58.8%	Ba	56% - 60%	Ba
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-2	-2	-2	-2
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2017(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable

Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1072959

INFRASTRUCTURE AND PROJECT FINANCE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

6 December 2016

Update

Rate this Research

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PPL Corporation

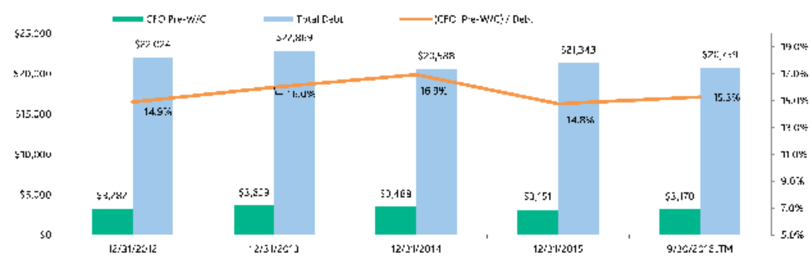
A Regulated Utility Holding Company

Summary Rating Rationale

PPL's Baa2 rating reflects the low business risk of its US and UK regulated utilities, offset by substantial debt leverage at the parent holding company. The regulated business is characterized by credit supportive regulatory environments and a large capital expenditure program across all major subsidiaries, resulting in substantial negative free cash flow. As a fully regulated business PPL generates approximately 70% of its earnings and cash flows from a networks or transmission and distribution (T&D) platform in the US and UK while the remaining 30% comes from integrated utility operation in the US, all of which provide good visibility from a recovery, earnings and cash flow perspective. Prospectively, PPL's CFO Pre-WC to debt is expected to be in the 13% to 15% range and its retained cash flow to debt in the 9% to 10% range, both of which compare well with other low risk Baa holding companies rated under our Regulated Electric and Gas Utility methodology. Although PPL has foreign exchange exposure due to its operations in the UK, we currently do not view the risk as a significant credit driver.

Exhibit 1

Ratio of CFO pre-W/C to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

» Mostly low risk, regulated wires-only subsidiaries

» Financial metrics adequate for its rating

» Constructive regulatory environments support rate base growth

Credit Challenges

» Large capital expenditure program

» High level of holding company debt

» Exposure to depreciation of the British Pound

Rating Outlook

PPL's stable outlook is supported by its strong regulated business operations in the US and UK and our expectation that management will maintain an appropriate capital structure during its large capital expenditure cycle as well as credit metrics, such as 13%-15% CFO pre-WC to debt and 9-10% RCF to debt.

Factors that Could Lead to an Upgrade

A rating upgrade could be possible if its consolidated CFO Pre-WC to debt rises to the high teens and its RCF to debt increases to the mid-teens. An upgrade could also occur if PPL lowers its percentage of holding company debt to a level below 20% of total consolidated debt.

Factors that Could Lead to a Downgrade

The potential for a rating downgrade is likely should the company increase its debt level, especially at the holding company level. A downgrade could also result should its consolidated CFO-Pre WC to debt fall to the low-teens or if its RCF to debt falls to mid-single digits. Additional pressure could occur should PPL experience any unexpected negative regulatory developments or concerns about its ability to earn appropriate returns on its investments. Additionally, negative ratings actions could occur if the company fails to properly manage its exposure to a declining foreign exchange rate, following Britain's vote to leave the European Union.

Key Indicators

Exhibit 2

PPL Corporation

	9/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	4.4x	4.4x	4.9x	4.4x	4.1x
CFO pre-WC / Debt	15.3%	14.8%	16.9%	16.0%	14.9%
CFO pre-WC – Dividends / Debt	10.3%	10.0%	12.2%	12.0%	11.0%
Debt / Capitalization	59.9%	60.9%	54.6%	57.1%	59.8%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Detailed Rating Considerations

- Mostly low risk, wires-only utility operations

As a holding company of seven rate regulated utilities, PPL maintains a lower business risk profile when compared to peers in the Baa rating category. Approximately 50% of PPL's cash flow is produced by its UK based T&D operations, which are consolidated under the intermediate holding company Western Power Distribution PLC (WPD, Baa3 stable). The remaining 50% of cash flow is produced in the US with about 30% generated at its two Kentucky utilities, Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable) and 20% from its incumbent utility in Pennsylvania, PPL Electric Utilities Corporation (PPLEU, A3 stable). The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (Baa1 stable).

From a commodity exposure perspective, WPD is considered the least risky, followed by PPLEU and then its utilities in Kentucky. As a distribution network operator (DNO) in the UK, WPD's subsidiaries have no commodity exposure because they do not have any commodity production or procurement responsibilities. PPLEU has more commodity exposure because it functions as the Provider of Last Resort (POLR) for the end-users within its service territory although it is a T&D utility. As the designated POLR entity, PPLEU is the default service provider that produces power for customers who are not served by a competitive retail energy provider. The risk associated with this exposure is very small given the transparent purchased power cost pass-through mechanism that is in place. Additionally, PPLEU mitigates this risk by entering into full-requirement supply agreements to serve its POLR customers.

PPL's Kentucky utilities have the most exposure to commodities as vertically integrated utilities. They own and operate power generation and the output from their power generation is used to serve their customer base. Although LG&E and KU have direct commodity exposure as the primary fuel for their generation fleet is coal, Kentucky allows the cost of fuel used to generate power to be recovered through a fuel adjustment clause within four months.

- Constructive regulatory environment supporting regulated growth

PPL's utilities operate under supportive regulatory environments, which lead to stable and predictable earnings and cash flow generated from roughly $24 billion of rate base. The regulatory environment for WPD subsidiaries is considered to be the strongest, operating under UK's regulatory process, which is among the most transparent globally. As the top performer among its DNO peers, WPD utilities has greatly benefitted from performance-based rate making mechanisms, which results in incentive bonus payments of $35 million annually along with higher authorized returns on equity (ROE) for WPD utilities. Additionally, as the only DNO to qualify for Fast-track incentives, WPD companies are allowed to retain 70% of realized cost efficiencies.

The regulatory environments in Kentucky and Pennsylvania are also considered credit supportive. The Kentucky Public Service Commission (KPSC) has approved various tracker mechanisms that provide for timely cost recovery outside of a general rate case. These tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management Cost (DSM) Recovery Mechanism. The last rate case settled in Kentucky in 2015 provided a $125 million annual revenue increase for KU's electricity operations and a $7 million increase for LG&E gas operations. The settlement agreed to no base revenue increase for LG&E's electric operations. Although it didn't specify an allowed ROE with respect to the base rates, a 10% allowed ROE was authorized for the ECR and GLT riders. On 23 November 2016, LG&E and KU filed their most recent rate case. In the filing, LG&E requested a $94 million electric rate increase and a $14 million gas rate increase, while KU filed for a $103 million electric rate increase. The filings are based on a test year of July 2017 through June 2018 and a requested return on equity (ROE) of 10.23%. The KPSC usually processes rate cases in a timely manner as was evident in the 2015 decision, which was settled 7 months after being filed.

In Pennsylvania, PPLEU has historically received reasonable and timely decisions in its rate cases, including the most recent distribution rate case that was concluded in November 2015. In this rate case, the company was allowed to use a forward test year and reached a settlement with interveners in about 5 months. PPLEU requested an 18.5% revenue increase and received about 74% of the request ($124 million versus $167.5 million) in the settlement.

Relative to other electric utilities, a high percentage of PPLEU's rate base is related to FERC regulated transmission assets. PPL expects the rate base contribution from transmission assets to be about 48% in 2017, growing to 55% by 2020. PPLEU's transmission infrastructure is regulated by the FERC under a formula ratemaking mechanism, which we consider to be predictable and thus credit supportive. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susquehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive-based rate treatments.

- Large capital investment program

PPL's utilities currently have a high level of capital expenditures that could apply pressure on their credit metrics. Based on the its third quarter earnings presentation, the company is projected to spend approximately $15.4 billion in capital expenditures between

2016 and 2020. In comparison, that represents about 64% of the company's rate base worth approximately $23.9 billion in 2016. When a company's capital plans reach these elevated levels there are generally two major credit implications. First, with a large capital expenditure program, the company is more exposed to project completion risk. Second, capital spending tends to place downward pressure on cash flow to debt ratios because debt is used to fund construction but most of the cash flows will only be generated after the project has been placed into service.

In PPL's case we do not view the completion risk to be a major concern because most of the projects are not technically complex and have a moderate to low level of completion risk. In addition the lagging effect on cash flow is less of a concern due to PPL's ability to recover a significant amount of their investments through regulatory recovery mechanisms outside of the traditional base rate case proceedings. For instance in Kentucky, the KPSC has adopted the ECR mechanism and recovery on certain construction work-in-progress, reducing regulatory lag. In Pennsylvania, the FERC transmission formula rate, Distribution System Improvement Charges (DSIC) mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a return on investments. All together these mechanisms allow PPL to recover approximately 79% of their investments in less than one year with about 71% being recovered in the first 6 months.

- High level of holding company debt
PPL's regulated subsidiaries have an average stand-alone credit profile of A3. However, with approximately $6 billion of holding company debt, which includes debt at the parent holding company and intermediary holding companies in the US and UK, PPL's rating is Baa2, two notches below its operating subsidiaries. PPL's holding company debt accounts for about 33% of total consolidated debt and the two notch treatment is consistent with other utilities that have substantial holding company debt.

- Adequate and stable financial metrics
PPL's consolidated CFO Pre-WC to debt has ranged between 15% to 16% for the past three years and is expected to decline to the 13% to 14% range. PPL's retained cash flow to debt has been in the 10% to 12% range for the past three years and is expected to fall to about 8% to 10% going forward. These credit metrics position the company reasonably well relative to the range of 11% to 19% for CFO Pre-WC to Debt and 7% to 15% for RCF to debt for the Baa rating category as a lower risk company rated under our Regulated Electric and Gas Utility methodology. The declines in cash flow to debt ratios are not considered a credit negative because they were mainly driven by the divestment of the unregulated generation business, which operated with a higher cash flow to debt ratios but also a higher business risk.

- Exposure to foreign currency risk
With a significant portion of earnings and cash flow generated in the UK, PPL must manage its foreign currency risk closely. Despite rapid depreciation of the British Pound (GBP) after the UK voted to leave the European Union, we do not believe there will be a negative impact on credit metrics. Following the vote PPL was able to realize a $310 million dollar increase in cash from hedge gains which they used to pay down debt.Over the next three years, we expect PPL to generate about 45% of its cash flow from its UK operation while about 36% of PPL's debt is either denominated in GBP or has been swapped into GBP. As a result, we do not expect a GBP depreciation to heavily influence the CFO Pre-WC to debt metric. In addition, if depreciation of the pound against other currencies leads to higher import prices in the UK, inflation as measured by the Retail Prices Index (RPI) could increase modestly. Since WPD's revenues and regulatory assets are adjusted annually by RPI, this could lead to higher earning in GBP terms.

Liquidity Analysis

PPL has an adequate liquidity profile supported by stable cash flow generated from its seven low risk utility subsidiaries. In addition to a steady stream of predictable cash flow, PPL has a significant amount of cash on hand totaling $416 million at the end of the third quarter 2016 and approximately $4 billion of bilateral and syndicated credit facilities issued by various entities throughout the PPL family. At the parent level, PPL maintains a $950 million syndicated credit facility expiring in January 2022 and a $300 million syndicated credit facility expiring in November 2018. Drawings under these two revolving credit facilities are not subject to a material adverse change clause. As of 30 September 2016, there were no borrowing against the facilities leaving the full $1.0 billion of capacity available. In January 2016, PPL Capital Funding increased their commercial paper program from $600 million to $1.0 billion to provide additional short-term financing. Additionally, PPL maintains a $150 million bilateral credit facility due in March 2017. The majority of the remaining facilities located at the operating subsidiaries expire between 2020 and 2021. As of the end of the third quarter 2016, there was approximately $2.1 billion of availability reaming out of the $4 billion total.

Over the last twelve month period ending 30 September 2016, PPL generated roughly $3.2 billion of cash flow from operations, spent about $3.1 billion in capital expenditures and paid $1.0 billion in dividends resulting in negative free cash flow of approximately $900 million. Due to the high level of planned capital expenditures we expect PPL to have between $1.0 billion and $1.5 billion of negative free cash flow after dividends going forward. We expect the company will finance the shortfall with a balanced mix of debt and equity and will maintain their current capital structure.

Profile

PPL Corporation is a utility holding company headquartered in Allentown, PA with three areas of regulated operations: UK regulated, Kentucky regulated, and Pennsylvania regulated. UK regulated includes Western Power Distribution PLC , a pure wires business in the United Kingdom with no retail exposure. Kentucky regulated includes Louisville Gas & Electric Company and Kentucky Utilities Company, which operate under a traditional integrated utility model. Pennsylvania regulated is comprised of PPL Electric Utilities Corporation, a transmission business mostly regulated by Federal Energy Regulatory Commission (FERC), and a distribution operation regulated by the Pennsylvania Public Utility Commission. PPL, though its operating subsidiaries, controls or owns about 8,000 MW of generating capacity in the US and sells electricity and natural gas to about 10.4 million customers in the US and UK.

Rating Methodology and Scorecard Factors

Exhibit 3

Exhibit 4

Rating Factors				
PPL Corporation				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	Aa	Aa
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	3.5x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	15.3%	Baa	12% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	10.7%	Baa	8% - 11%	Baa
d) Debt / Capitalization (3 Year Avg)	58.6%	Ba	56% - 60%	Ba
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	2	2	2	2
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 9/30/2016(L); Source: Moody's Financial Metrics™
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2

WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
PPL WEM HOLDINGS LTD	
Outlook	Stable
Bkd Senior Unsecured	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1051696

MOODY'S
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CREDIT OPINION
25 October 2018

Update

Rate this Research

RATINGS

Kentucky Utilities Co.

Domicile	Lexington, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

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Asia Pacific	852 3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Kentucky Utilities Co.

Update to credit analysis

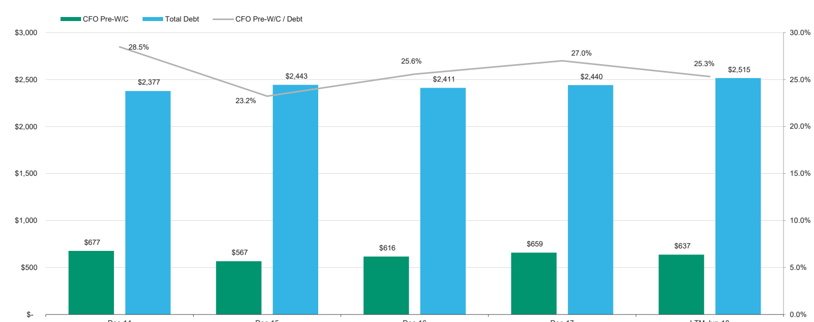
Summary

Kentucky Utilities' (KU) credit strengths include its constructive regulatory environments in Kentucky and Virginia where it has utility operations. KU has stable utility operations that produce relatively consistent credit metrics historically. KU represents approximately 22% of the cash flow to its ultimate parent company, PPL Corporation (PPL). These positive factors are somewhat offset by KU's large capital investment program, which may slightly pressure certain credit metrics, and to a lesser extent, a lack of fuel and geographic diversity.

The Kentucky and Virginia regulatory environments are supportive due to their transparent recovery framework. KU has been approved various tracker mechanisms by the regulatory commissions, providing a timely cost recovery. KU has been active in its general rate case filings. In September 2018, KU filed for an electric rate case requesting a $112 million rate increase by the Kentucky Public Service Commission (KPSC). A final decision is expected by April 2019. Its last rate case in Kentucky concluded in June 2017.

We expect KU's ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to range from 20% to 24%, which is weaker than its historical level.

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt ***($MM)***



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory environment in Kentucky and Virginia

» Stable financial profile with transparent and predictable cash flows

Credit challenges

» Large capital investment program

» High coal concentration in its generation fuel mix

» Elevated carbon transition risk

Rating outlook

The stable outlook reflects our expectation that the regulatory environments in Kentucky and Virginia will remain credit supportive for regulated utilities. The stable outlook also incorporates our view that KU will continue to generate stable cash flow and adequate financial metrics while it executes a large capital investment program, including a ratio of CFO pre-WC to debt in the 20%-24% range.

Factors that could lead to an upgrade

KU's rating could be upgraded if its financial metrics improve, including CFO pre-WC to debt at or above 26% on a sustained basis. An upgrade is also possible if KU's regulatory environment materially improves and provides more favorable regulatory recovery mechanisms. However, it is unlikely that KU's rating will be upgraded while the company executes on its large capital investment program and faces a slight negative impact in cash flows due to tax reform.

Factors that could lead to a downgrade

KU's ratings could be downgraded if there is a significant deterioration in the credit supportiveness of the regulatory environments. Additionally, KU's rating could be downgraded if its financial metrics deteriorate, such that CFO pre-WC to debt declines below 20% for an extended period of time.

Key indicators

Exhibit 2
Kentucky Utilities Co. [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
CFO Pre-W/C + Interest / Interest	9.6x	7.8x	7.3x	7.8x	7.4x
CFO Pre-W/C / Debt	28.5%	23.2%	25.6%	27.0%	25.3%
CFO Pre-W/C – Dividends / Debt	22.2%	17.0%	15.3%	17.7%	15.3%
Debt / Capitalization	36.9%	36.2%	35.0%	37.7%	38.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

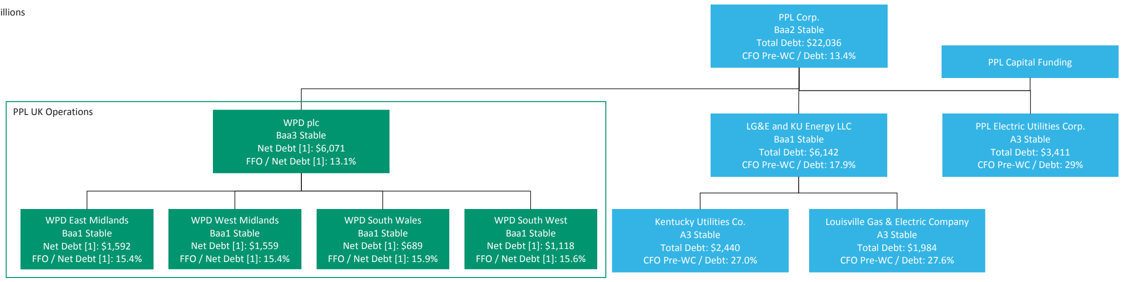
Kentucky Utilities (KU) is a wholly owned regulated public utility subsidiary of LG&E and KU Energy LLC (LKE, Baa1 Stable) that is engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 525,000 customers in 77 counties of Kentucky and 28,000 customers in five counties of Virginia. KU is regulated by the Kentucky Public Service Commission and Virginia State Corporate Commission.

KU and its affiliate, Louisville Gas and Electric Company (LG&E, A3 Stable), are the two main operating entities of LKE. LKE is wholly owned by PPL Corporation (PPL, Baa2 Stable), a diversified utility holding company headquartered in Allentown, PA.

Exhibit 3

Organizational Structure
As of 12/31/2017

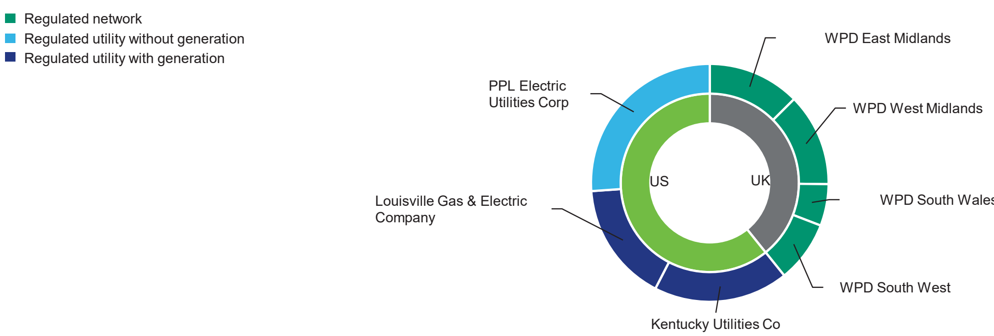
$ in millions



[1] As of 3/31/2018; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics

Exhibit 4

PPL's rate base breakdown between the US and UK jurisdictions



Source: Company Reports

Detailed credit considerations

Supportive regulatory environment in Kentucky and Virginia

KU is a regulated electric and gas utility that has operations in Kentucky and Virginia and is regulated by the Kentucky Public Service Commission (KPSC) and the Virginia State Corporation Commission (SCC), respectively. We consider the regulatory environments in these states to be constructive for long-term credit quality. In Kentucky, the KPSC has approved various tracker mechanisms, allowing timely cost recovery for certain utility investments outside of a rate case, a credit positive. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management (DSM) Cost Recovery Mechanism. KU does not have a decoupling mechanism in place, which subjects KU's revenue to some volatility. However, an impact on its revenue due to non-weather related demand fluctuations is minimized because of the DSM mechanism.

KU's last general rate rase in Kentucky concluded in June 2017 when a settlement was reached and approved. KU was authorized a $52 million of revenue increase based on the approved settlement compared to its initial $103 million increase request. The revenue increase was based on a 9.7% return on equity (ROE) but the settlement did not specify the allowed equity capitalization. In its order, the KPSC also excluded the recovery of certain costs for funding employee retirement plans.

In March 2018, the KPSC required KU's rates to be reduced by $108 million over the period between April 2018 and April 2019 to account for the impact of the TCJA. In September 2018, the KPSC adopted a revised tax-related rate reduction of $101 million for KU.

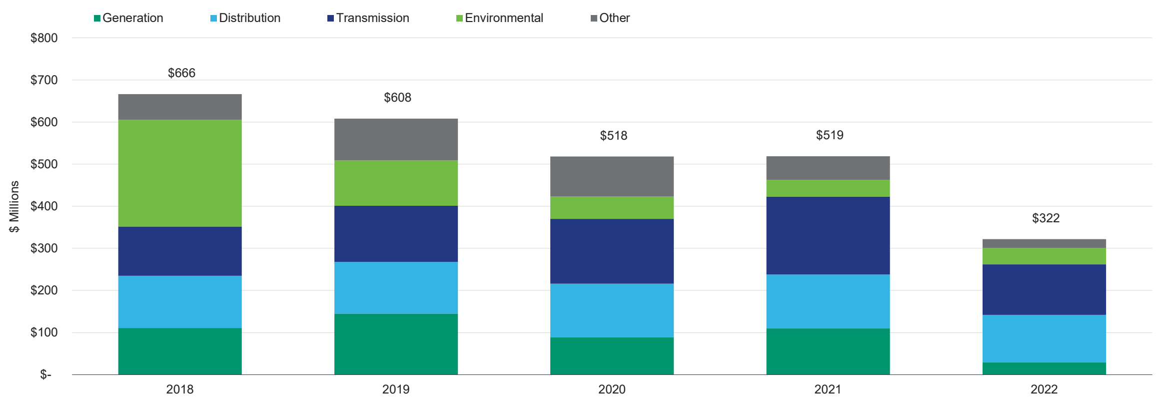
Also in September 2018, KU filed for its latest rate case with the KPSC, requesting a $112 million electric rate increase based on a 10.42% ROE and equity layer of 52.84% with a capitalization for ratemaking value estimated around $4.1 billion using a test year ending April 2020. The final decision is expected to be in April 2019.

The last rate case in Virginia was filed in September 2017 and the new rates became effective in June 2018. A settlement was approved by the SCC and KU was authorized a $1.8 million rate increase. KU had requested a $6.7 million rate increased based on a 10.42% ROE and a 53.85% equity layer. The SCC staff had recommended a $1.3 million rate increase based on a 9.2% ROE. Although the specifics of the settlement were not disclosed, the involved parties agreed that a ROE range of 9%-10% was reasonable. The primary reason for the filing was to recover costs related to environmental compliance. However, based on the settlement agreement reached, including the impact of the TCJA on rates, resulted with an outcome of a $1.8 million rate increase.

Large capital investment plan over the next five years

Over the next five years, KU plans to spend approximately $2.6 billion in capital expenditures, which is sizable considering the latest estimated value of its $4 billion capitalization for ratemaking KU expects to invest. Approximately $709 million will be spent on transmission facilities, $615 million on distribution facilities, $493 million on environmental, $484 million on generating facilities, and $332 million on other expenses. The total projected capital investment represents about 40% of KU's net book value of property, plant and equipment, which was about $6.7 billion at the end of year end 2017.

Exhibit 5
Projected Capital Investment Plan



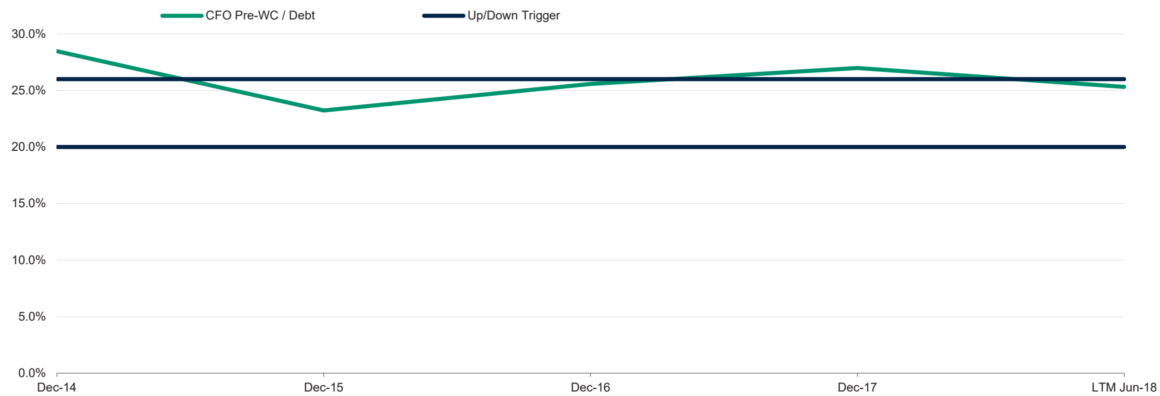
Source: Company Reports

We expect the regulatory lag related to KU's large capital investment to be somewhat moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with the coal combustion waste. The terms of the ECR allow KU to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional rate-making process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceedings.

Stable financial profile, but weakening credit metrics

KU has historically maintained a strong financial profile with its ratio of CFO pre-WC to debt in the mid-20% range. However, we expect metrics to slightly weaken to the low-20% range over the next 12-18 months. Metrics at these levels still position the company in-line with its credit profile. As of the last twelve months (LTM) period ending 30 June 2018, CFO pre-WC to debt was 25.3% and 25.1% on average for the past three years. The decline in metrics is caused by elevated capital investments as well as the negative impact of tax reform. However, prudent cost recovery mechanisms that are in place should result in timely recovery of investments and should help KU maintain its key credit metrics within the adequate ranges. Also, a capital contribution received from PPL of approximately $45 million as of LTM 30 June 2018 has slightly helped mitigate the pressure on its cash flow.

Exhibit 6
KU's Historical CFO pre-WC to Debt vs Rating Triggers

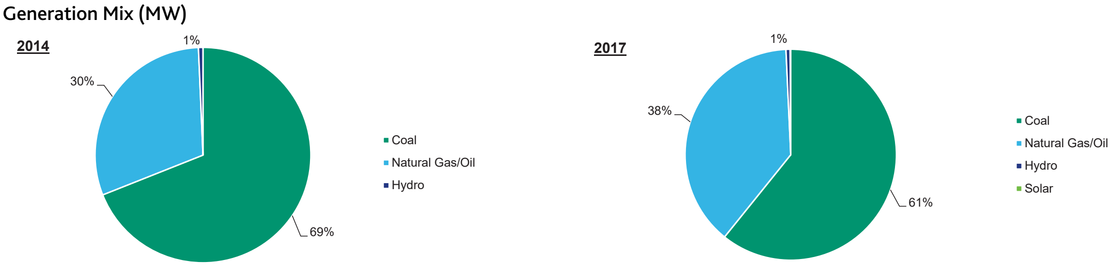


Source: Moody's Financial Metrics

Elevated carbon transition risk within the regulated utility sector

KU has elevated carbon transition risk within the US regulated utility sector because it is a vertically integrated utility that has a large, fossil based, installed generation capacity. Kentucky's political and regulatory environment is supportive of coal mining and related industries. KU has a total generation capacity of 5.1 GW, and 3.1 GW (61%) is coal-fired, which provides the majority (82%) of the electricity generation output. The remaining 18% of the generating capacity is comprised mainly of gas/oil-fired, hydro, and solar facilities. KU's generation fuel mix became more diversified when a new gas-fired power plant replaced its older coal-fired power plants. When Cane Run 7, a 660 MW power plant, became operational in June 2015. It replaced three older coal-fired plants which had a combined generating capacity of 797 MW.

Exhibit 7
KU Generation Mix (MW)



Source: Company reports

Fuel concentration in coal is typically considered to be a significant credit negative. However, we do not view KU's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. However, KU is exposed to the risk of potentially needing to make a more rapid transition to clean energy in the future if carbon policies change.

Liquidity analysis

We expect KU to maintain an adequate but weakened liquidity profile over the next 12-18 months. KU has a P-2 short-term commercial program rating.

KU's liquidity is supported by a $400 million syndicated credit facility that expires in January 2023 and a $198 million letter of credit facility expiring in October 2020. As of 30 June 2018, the credit facility had $267 million of available capacity. KU's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the second quarter of 2018. The facility does not contain a material adverse change clause.

Over the LTM period ending 30 June 2018, KU generated cash flow from operations of approximately $661 million, spent about $531 million in capital investments and paid $252 million in dividends, resulting in a negative free cash flow of approximately $122 million. The shortfall was partially financed with equity contributions from the parent. Due to the high level of planned capital investments, we expect KU to remain in a negative free cash flow position over the next 12-18 months.

KU's next long-term debt maturity is $500 million of senior secured notes maturing in November 2020.

LG&E and KU Energy (LKE), the intermediate parent company of KU, manages the liquidity of its utility operations through its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. Also, the $75 million syndicated credit facility at LKE expires on 30 October 2018 and LG&E has a separate $500 million syndicated credit facility maturing in January 2023. As of 30 June 2018, LG&E had $317 million available. Also, LG&E's $200 million term loan due October 2019 became current. LG&E's facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2018.

Rating methodology and scorecard factors

Exhibit 8

Rating Factors				
Kentucky Utilities Co. -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.3x	Aa	6x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.1%	A	20% - 24%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.8%	Baa	10% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	35.9%	A	36% - 39%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching		0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 06/30/2018(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 9
Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
As Adjusted					
FFO	**679**	**641**	**652**	**689**	**667**
+/- Other	(2)	(74)	(36)	(30)	(30)
CFO Pre-WC	677	567	616	659	637
+/- ΔWC	(102)	50	(1)	(15)	24
CFO	**575**	**617**	**615**	**644**	**661**
- Div	148	153	248	226	252
- Capex	613	528	359	442	531
FCF	**(186)**	**(64)**	**8**	**(24)**	**(122)**
(CFO Pre-W/C) / Debt	28.5%	23.2%	25.6%	27.0%	25.3%
(CFO Pre-W/C - Dividends) / Debt	22.2%	17.0%	15.3%	17.7%	15.3%
FFO / Debt	28.6%	26.3%	27.1%	28.2%	26.5%
RCF / Debt	22.3%	20.0%	16.8%	19.0%	16.5%
Revenue	1,737	1,728	1,749	1,744	1,786
Cost of Goods Sold	1,070	1,013	945	929	960
Interest Expense	78	84	98	97	99
Net Income	220	234	265	259	288
Total Assets	7,741	8,055	8,129	8,298	8,397
Total Liabilities	4,557	4,793	4,830	4,964	4,992
Total Equity	3,184	3,262	3,299	3,334	3,405

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 10
Peer Comparison Table [1]

	Kentucky Utilities Co. A3 Stable			Kentucky Power Company Baa2 Negative			Black Hills Power, Inc. A3 Stable			Empire District Electric Company (The) Baa1 Stable		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18
Revenue	1,749	1,744	1,786	655	643	659	268	288	293	613	627	682
CFO Pre-W/C	616	659	637	110	150	136	87	87	96	210	202	258
Total Debt	2,411	2,440	2,515	936	934	940	354	351	351	927	893	894
CFO Pre-W/C / Debt	25.6%	27.0%	25.3%	11.7%	16.1%	14.5%	24.5%	24.7%	27.5%	22.7%	22.7%	28.8%
CFO Pre-W/C – Dividends / Debt	15.3%	17.7%	15.3%	7.0%	12.3%	12.6%	9.6%	12.7%	12.7%	17.8%	18.6%	21.9%
Debt / Capitalization	35.0%	37.7%	38.0%	41.3%	46.8%	45.8%	37.4%	41.2%	41.4%	42.6%	44.9%	44.7%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1144489

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 October 2017

Update

Rate this Research

RATINGS

Kentucky Utilities Co.

Domicile	Lexington, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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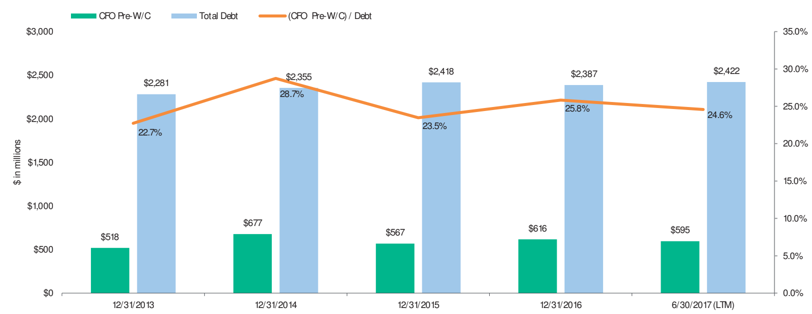
Kentucky Utilities Co.

Update to credit analysis

Summary

Kentucky Utilities' (KU, A3 stable) credit strengths includes its stable financial performance and the credit supportive regulatory environments in Kentucky and Virginia where it operates. However, these are slightly offset, in part, by a large multiple year capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Supportive regulatory environment in Kentucky and Virginia

» Strong and stable financial metrics

Credit Challenges

» Large capital expenditure program over the next five years

» High coal concentration in its generation fuel mix

Rating Outlook

KU's stable outlook reflects its supportive regulatory environments and consistent financial performance. Also, it incorporates the expectation that KU's credit metrics will be maintained around low 20%.

Factors that Could Lead to an Upgrade

It is unlikely that KU's rating will be upgraded while the company executes on its large capital investment program. However, ratings could be upgraded if the company receives more favorable regulatory recovery mechanisms for non-environmental related capital expenditures or maintains its cash flow from operations before changes in working capital (CFO Pre-WC) to debt ratio at 26% or above on a sustained basis.

Factors that Could Lead to a Downgrade

KU's ratings could be downgraded should the company experience materially unfavorable regulatory developments or unanticipated changes are made to the regulatory compact that currently provides for timely recovery of costs. A downgrade could also be considered if CFO pre-WC to debt declines below 20% for an extended period of time.

Key Indicators

Exhibit 2

KEY INDICATORS [1]
Kentucky Utilities Co. -Private

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	6/30/2017(L)
CFO pre-WC + Interest / Interest	8.2x	9.6x	7.8x	7.3x	7.0x
CFO pre-WC / Debt	22.7%	28.7%	23.5%	25.8%	24.6%
CFO pre-WC – Dividends / Debt	17.3%	22.5%	17.1%	15.4%	14.5%
Debt / Capitalization	38.1%	36.6%	35.8%	34.7%	34.6%

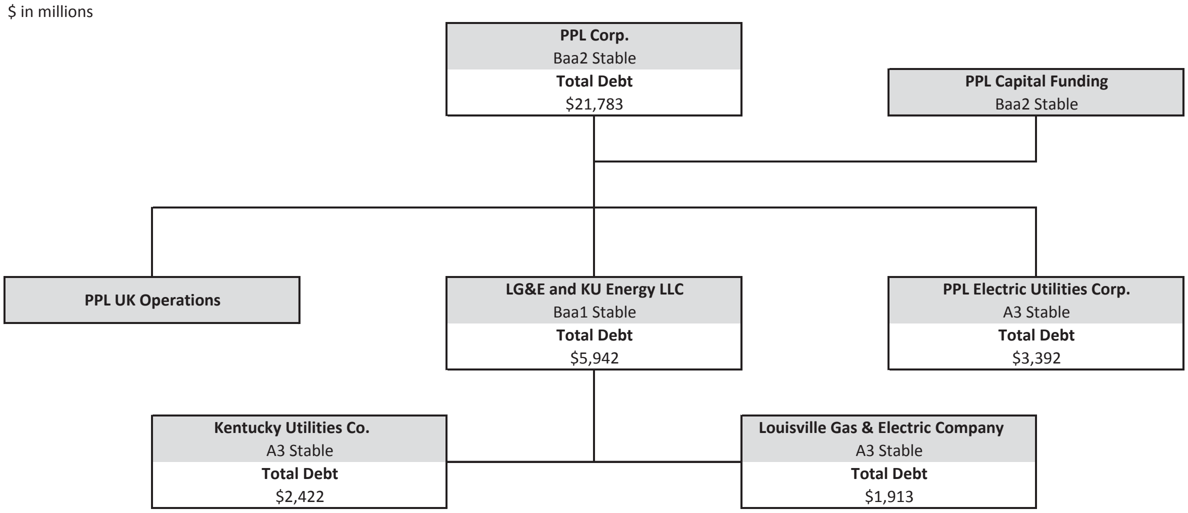
[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Financial Metrics

Profile

Kentucky Utilities (KU, A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 521,000 customers in Kentucky and 28,000 customers in Virginia. Its service territory covers approximately 4,800 square miles.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable). KU and its affiliate, Louisville Gas and Electric Company (LG&E, A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL, Baa2 stable), a utility holding company headquartered in Allentown, PA.

Exhibit 3
Organization Structure
As of 30 June 2017
$ in millions



Total debt is based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics, company

Detailed Credit Considerations

- Supportive regulatory environments provide for timely investment cost recovery

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality. For example, the KPSC has approved various tracker mechanisms, allowing timely cost recovery for utility investments outside of a rate case. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management (DSM) Cost Recovery Mechanism. KU does not have a decoupling mechanism in place, which subjects KU's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because KU has the DSM mechanism.

The last general rate case in Kentucky concluded in June 2017 when a settlement was reached and approved. In the settlement, KU was authorized a $51.6 million electric revenue increase. The settlement provided for a 9.7% return on equity (ROE) but did not specify the allowed equity capitalization. In its order, the KSPC excluded the recovery of certain costs for funding employee retirement plans. Prior to the settlement sent before the commission, KU agreed to withdraw its request to recover costs related to its Advanced Meter System Project reducing its revenue requirement by about $6.3 million. The withdrawal of its request to recover those costs does not preclude KU from asking the commission to consider cost recovery in the future.

In January 2016, KU and affiliate utility Louisville Gas & Electric Company (LG&E, A3 stable) submitted applications to the KPSC, requesting ECR rate treatment for projects related to the EPA's regulations addressing the handling of coal and combustion by products and MATS (mercury and air toxics standards). In August 2016, the KPSC approved the settlement and authorized a 9.8% ROE for the projects. However, on 23 June 2017, the KPSC lowered the authorized ROE to 9.7% for all of LG&E's and KU's existing approved ECR plans and projects. Effective August 2017 the lower ROE replaces the previously authorized ROE for approved ECR projects.

In September 2017, KU filed a rate case with the Virginia State Corporation Commission (SCC). In its rate case filing KU is requesting an approximate $6.7 million increase in base rates based on a 10.42% ROE and a 53.85% equity layer. The primary reason for the filing is to recover costs related to environmental compliance. A final decision is expected by June 2018 with new rates effective in July 2018.

- Large capital expenditure planned over the next five years

KU's total capital expenditures over the next five years are estimated to be $2.7 billion, with $789 million related to environmental investments. Between 2012 and 2016, KU's total capital expenditure was approximately $2.8 billion. The total projected capital expenditure represents about 41% of KU's net book value of property, plant and equipment, which was about $6.6 billion at the end of the second quarter of 2017.

We expect the regulatory lag related to KU's large capital expenditures to be meaningfully moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes any regulatory lag for investments associated with complying with the Clean Air Act compliance and coal combustion waste and by-product environmental requirements. The terms of the ECR allow KU to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional rate-making process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceeding.

- Stable financial profile

KU's financial metrics have been consistently strong. As of 30 June 2017, CFO pre-WC to debt was 24.6% for the last twelve months (LTM) and 25.2% on average for the past three years. Its LTM debt to capitalization ratio was 35% and 35.2% on average over the past three years. We expect KU's financial metrics to remain stable as it continues to benefit from the extension of bonus depreciation through its large capital expenditure program.

- High reliance on coal as fuel for generation

KU's current generation capacity heavily relies on coal. Of its 5.1 GW of generating capacity, 3.1 GW (61%) is coal-fired, which provides the majority (77%) of the electricity generation output. The remaining 39% of the generating capacity is comprised mainly of gas- or oil-fired facilities. KU's generation fuel mix became more diversified when a new gas-fired power plant replaced its older coal-fired power plants. When Cane Run 7, a new 640 MW power plant, became operational in June 2015, it replaced three older coal-fired plants which had a combined generating capacity of 555 MW.

Fuel concentration, especially in coal, is normally considered to be a significant credit negative. However, we do not view KU's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. Kentucky is also one of the states that filed lawsuits to overturn the Clean Power Plan (CPP), which the Supreme Court stayed on 9 February 2016. Both KU and LG&E have decided not to incorporate their CPP spending in their current capital plan as the issue continues to be litigated.

Liquidity Analysis

KU's short-term rating is P-2 and we expect the utility to maintain adequate liquidity over the next 12-18 months.

KU has a $400 million syndicated credit facility expiring in January 2022 and a $198 million letter of credit facility expiring in October 2020. As of 30 June 2017, KU had issued $51 million of commercial paper and had $349 million of unused capacity under its syndicated credit facility. Its $198 million of letter of credit facility was fully used. For the LTM ending 30 June 2017, KU had negative free cash flow of $19 million which is likely to remain negative in coming years given its large capital expenditure program. KU's next debt maturity is $500 million of Secured Notes maturing in 2020.

LG&E and KU Energy (LKE, Baa1 stable), the intermediate parent company of KU, manages the liquidity of its utility operations through its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. Also, LKE has a $75 million syndicated credit facility that expires in October 2018 and LG&E has a $500 million syndicated credit facility maturing in January 2022. As of 30 June 2017, LKE had the entire $75 million available and LG&E had $293 million available. Each facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2017.

Rating Methodology and Scorecard Factors

Exhibit 4

Rating Factors				
Kentucky Utilities Co. -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.8x	Aa	6x - 8x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.2%	A	24% - 28%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	17.3%	A	17% - 21%	A
d) Debt / Capitalization (3 Year Avg)	35.2%	A	33% - 37%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 6/30/2017(L)
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1096368

MOODY'S INVESTORS SERVICE

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CREDIT OPINION
25 October 2018

Update

Rate this Research

RATINGS

Louisville Gas & Electric Company

Domicile	Louisville, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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EMEA 44-20-7772-5454

Louisville Gas & Electric Company

Update to credit analysis

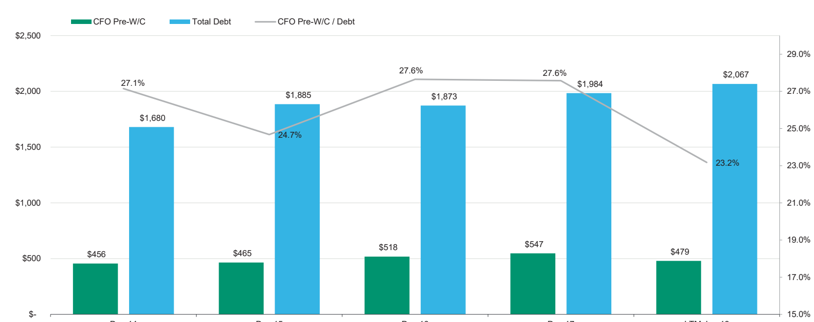
Summary

Louisville Gas & Electric Company's (LG&E) credit strengths include the credit supportive regulatory environment in Kentucky and a stable financial profile that produces relatively consistent credit metrics. LG&E represents approximately 17% of the cash flow to its ultimate parent company, PPL Corporation (PPL). LG&E's cash flow was negatively impacted by the US Tax Cuts and Jobs Act, but the credit metrics remain adequate for its credit profile. We expect LG&E's large capital investment program to slightly pressure certain credit metrics. Some of the other credit negative drivers include a lack of fuel and geographic diversity.

The Kentucky regulatory environment is supportive due to its transparent recovery framework. LG&E has various tracker mechanisms approved by the commission and they provide a timely recovery of the company's investment costs. In September 2018, LG&E filed for a rate case requesting an electric and gas rate increase of $35 million and $25 million, respectively. A final decision is expected by April 2019.

We expect LG&E's ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to range from 20% to 24%, which is weaker than its historical level.

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt
($MM)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory environment in Kentucky

- Adequate financial profile with transparent and predictable cash flows

Credit challenges

- Large capital investment program
- High coal concentration in its generation fuel mix
- Elevated carbon transition risk

Rating outlook

The stable outlook reflects our expectation that Kentucky regulatory environment will remain credit supportive for regulated utilities and will provide a long-term transition with respect to the use of coal in its fuel mix. The stable outlook also incorporates our view that LG&E will continue to generate stable cash flow and adequate financial metrics while it executes a large capital investment program, including a ratio of CFO pre-WC to debt in the 20%-24% range.

Factors that could lead to an upgrade

LG&E's rating could be upgraded if its financial metrics improve, including CFO pre-WC to debt at or above 26% or a sustained basis. An upgrade is also possible if LG&E's regulatory environment materially improves and provides more favorable regulatory recovery mechanisms. However, it is unlikely that LG&E's rating will be upgraded while the company executes on its large capital investment program and faces a slight negative impact in cash flows due to tax reform.

Factors that could lead to a downgrade

LG&E's ratings could be downgraded if there is a significant deterioration in the credit supportiveness of the regulatory environments. Additionally, LG&E's rating could be downgraded if its financial metrics deteriorate, such that CFO pre-WC to debt declines below 20% for an extended period of time.

Key indicators

Exhibit 2
Louisville Gas & Electric Company [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
CFO Pre-W/C + Interest / Interest	10.1x	8.8x	8.0x	8.5x	7.5x
CFO Pre-W/C / Debt	27.1%	24.7%	27.6%	27.6%	23.2%
CFO Pre-W/C – Dividends / Debt	20.5%	18.4%	20.8%	17.9%	15.9%
Debt / Capitalization	37.0%	37.5%	35.3%	39.1%	39.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

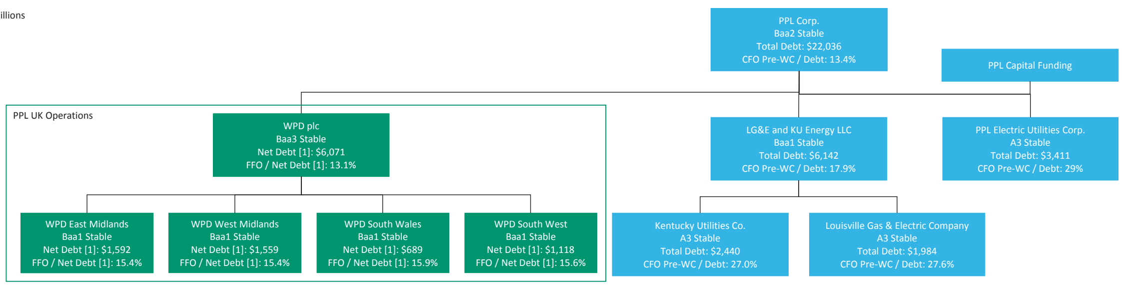
Profile

Louisville Gas and Electric Company (LG&E) is a wholly owned regulated public utility subsidiary of LG&E and KU Energy LLC (LKE, Baa1 Stable) that is engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 411,000 customers in Louisville and delivers natural gas service to approximately 326,000 customers in its electric service area and eight additional counties in Kentucky. LG&E is regulated by the Kentucky Public Service Commission.

LG&E and its affiliate, Kentucky Utilities Company (KU, A3 Stable), are the two main operating entities of LKE. LKE is wholly owned by PPL Corporation (PPL, Baa2 Stable), a diversified utility holding company headquartered in Allentown, PA.

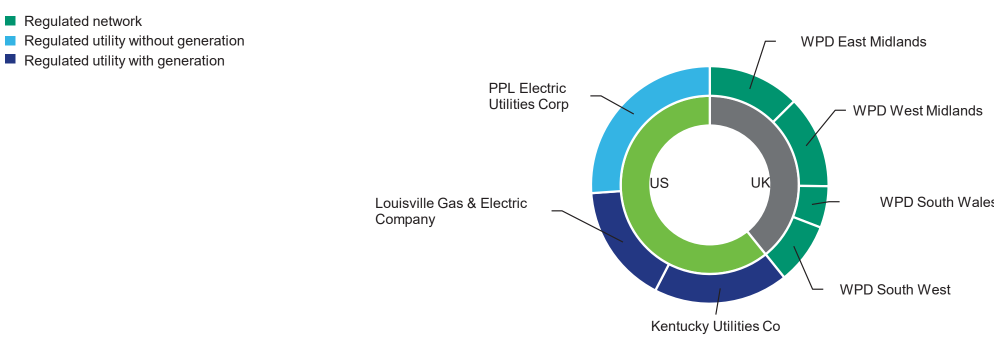
Exhibit 3
Organizational Structure
As of 12/31/2017

$ in millions



[1] As of 3/31/2018; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics, Company

Exhibit 4
PPL's rate base breakdown between the US and UK jurisdictions



Source: Company Reports

Detailed credit considerations

Supportive regulatory environment in Kentucky

LG&E is a regulated electricand gas utility in Kentucky regulated by the Kentucky Public Service Commission (KPSC). From a credit perspective, we consider the regulatory framework in Kentucky to be constructive for long-term credit quality. In Kentucky, the KPSC has approved various tracker mechanisms, allowing timely cost recovery for utility investments outside of a rate case, credit positive, since LG&E is going through a large capital expenditure plan. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management (DSM) Cost Recovery Mechanism. Riders for LG&E's gas operations include a Cas Supply Clause (GSC) and Gas Line Tracker (GLT). LG&E does not have a decoupling mechanism in place, which subjects LG&E's revenue to some volatility. However, LG&E's impact on its revenue from non-weather related demand fluctuations is adjusted through the DSM mechanism.

LG&E's last general rate rase concluded in June 2017. LG&E had requested a $94 million electric revenue increase and a $14 million gas revenue increase. LG&E was authorized $57 million and $7 million, respectively, based on a settlement. The settlement provided for a 9.7% return on equity (ROE) but did not specify the allowed equity capitalization. In its order, the KPSC excluded the recovery of certain costs for funding employee retirement plans.

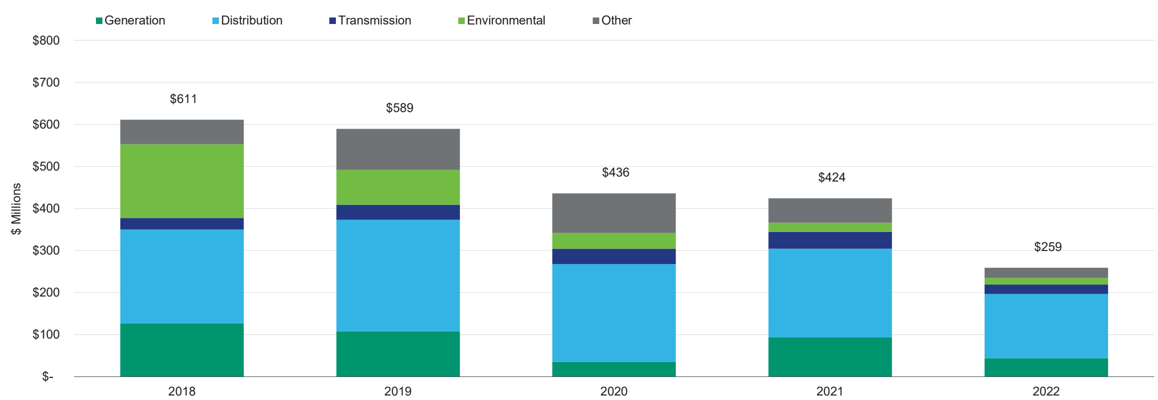
In March 2018, the KPSC required LG&E's electric and gas rates to be reduced by $79 million and $17 million, respectively, over the period of April 2018 through April 2019, to account for the impact of the federal Tax Cuts and Jobs Act (TCJA) of 2017. In September 2018, the KPSC adopted a revised tax-related rate reduction of $74 million and $16 million for LG&E.

In September 2018, LG&E filed for its latest rate case with the KPSC, requesting a $35 million electric rate increase and $25 million gas rate increase based on a 10.42% ROE, equity layer of 52.84%, and a test year ending April 2020. This rate case filing will also reconsider the existing proceeding relating to the rate reduction impact of the TCJA. The final decision is expected to be in April 2019.

High capital investment plan over the next five years

Over the next five years, LG&E plans to spend approximately $2.3 billion in capital expenditures, which is sizable considering the latest estimated value of its $3.4 billion capitalization for rate making LG&E expects to invest. Approximately $1.1 billion on distribution facilities, $408 million on generating facilities, $335 million on environmental, $161 million will be spent on transmission facilities, and $331 million on other expenses. The total projected capital investment represents about 44% of LG&E's net book value of property, plant and equipment, which was about $5.3 billion at the end of year end 2017.

Exhibit 5
Projected Capital Investment Plan



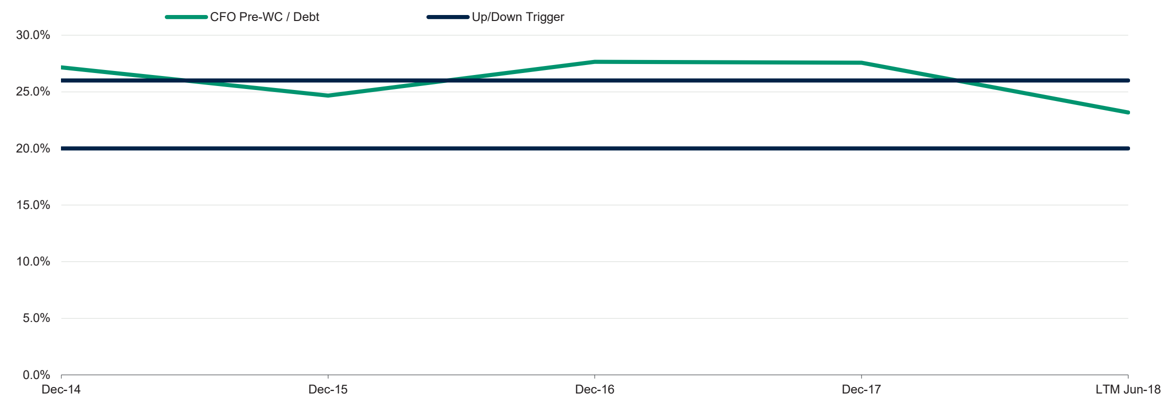
Source: Company Reports

We expect the regulatory lag related to LG&E's large capital investment to be somewhat moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with coal combustion waste. The terms of the ECR allow LG&E to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional rate-making process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceedings.

Adequate financial profile, but weaker credit metrics

LG&E has historically maintained a strong financial profile with its ratio of CFO pre-WC to debt staying in the mid to high-20% range. However, we expect metrics to weaken to the low-20% range over the next 12-18 months. Metrics at these levels still position the company in-line with its credit profile. As of the last twelve months (LTM) period ending 30 June 2018, CFO pre-WC to debt was 23.2% and 25.1% on average for the past three years. The decline in metrics is caused by elevated capital investments as well as the negative impact of tax reform. However, existing cost recovery mechanisms should result in timely recovery of investments and should help LG&E maintain its key credit metrics within the adequate ranges. Also, the $73 million capital contribution received from PPL as of LTM 30 June 2018 slightly helped to mitigate the pressure on its metrics.

Exhibit 6
LG&E's Historical CFO pre-WC to Debt vs Rating Triggers

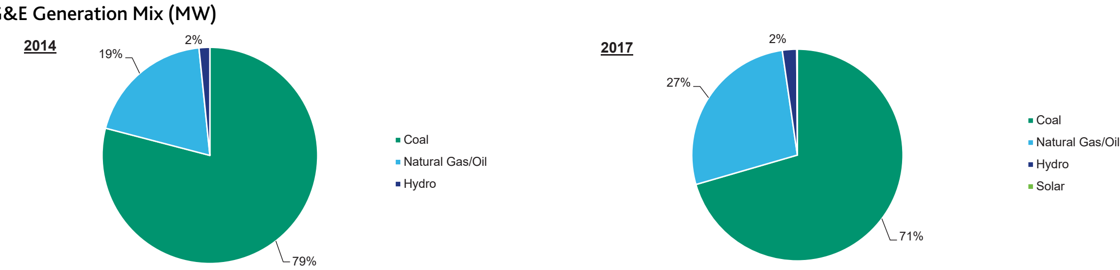


Source: Moody's Financial Metrics

Elevated carbon transition risk within the regulated utility sector

LG&E has elevated carbon transition risk within the US regulated utility sector because it is a vertically integrated utility that has a large, fossil based, installed generation capacity. Kentucky's political and regulatory environment is supportive of coal mining and related industries. LG&E has a total generation capacity of 2.9 GW, and 2.1 GW (71%) is coal-fired, which provides the majority (90%) of LG&E's electricity generation output. The remaining 10% of the generating output is comprised mainly of gas/oil-fired, hydro, and solar facilities. LG&E's generation fuel mix became more diversified when a new gas-fired power plant replaced its older coal-fired power plants. In June 2015, the 660 MW gas plant at Cane Run started its commercial operations, replacing a retired coal-fired plant at Cane Run.

Exhibit 7
LG&E Generation Mix (MW)



Source: Company Reports

Fuel concentration in coal is typically considered to be a significant credit negative. However, we do not view LG&E's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. However, LG&E is exposed to the risk of potentially needing to make a more rapid transition to clean energy in the future if carbon policies change.

Liquidity analysis

We expect LG&E to maintain an adequate but weaker liquidity profile over the next 12-18 months. LG&E has a P-2 short-term commercial paper rating.

LG&E's liquidity is supported by a $500 million syndicated credit facility that expires in January 2023 and a $200 million term loan credit facility expiring in October 2019. This $200 million term loan is now current, weaking LG&E's overall liquidity. As of 30 June 2018, the credit facility had $317 million of available capacity. LG&E's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the second quarter of 2018. The facility does not contain a material adverse change clause.

Over the LTM period ending 30 June 2018, LG&E generated cash flow from operations of approximately $516 million, spent about $590 million in capital investments and paid $151 million in dividends, resulting in a negative free cash flow of approximately $225 million. The shortfall was partially financed with equity contributions from the parent. Due to the high level of planned capital investments, we expect KU to remain in a negative free cash flow position over the next 12-18 months.

LG&E's next long-term debt maturity is $300 million of secured notes due in 2025.

LG&E and KU Energy (LKE), the intermediate parent company of LG&E, manages the liquidity of its utility operations through its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. Also, LKE has a $75 million syndicated credit facility that expires on 30 October 2018, further weakening overall family's liquidity. KU has a separate $400 million syndicated credit facility maturing in January 2023. As of 30 June 2018, KU had $267 million available. The facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2018.

Rating methodology and scorecard factors

Exhibit 8
Rating Factors
Louisville Gas & Electric Company

Rating Factors				
Louisville Gas & Electric Company -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.7x	Aa	5.5x - 6.5x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.1%	A	20% - 24%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	17.1%	A	10% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	37.0%	A	37% - 40%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching		0	0	0
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2018(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 9

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
As Adjusted					
FFO	**473**	**526**	**589**	**557**	**551**
+/- Other	(17)	(61)	(71)	(10)	(72)
CFO Pre-WC	**456**	**465**	**518**	**547**	**479**
+/- ΔWC	(79)	111	11	(22)	37
CFO	**377**	**576**	**529**	**525**	**516**
- Div	112	119	128	192	151
- Capex	662	699	452	471	590
FCF	**(397)**	**(242)**	**(51)**	**(138)**	**(225)**
(CFO Pre-W/C) / Debt	27.1%	24.7%	27.6%	27.6%	23.2%
(CFO Pre-W/C - Dividends) / Debt	20.5%	18.4%	20.8%	17.9%	15.9%
FFO / Debt	28.2%	27.9%	31.4%	28.1%	26.7%
RCF / Debt	21.5%	21.6%	24.6%	18.4%	19.4%
Revenue	1,533	1,444	1,430	1,453	1,492
Cost of Goods Sold	641	504	457	451	471
Interest Expense	50	60	74	73	74
Net Income	171	180	205	216	242
Total Assets	5,682	6,124	6,360	6,619	6,709
Total Liabilities	3,521	3,810	3,900	4,107	4,113
Total Equity	2,161	2,314	2,460	2,512	2,596

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 10

Peer Comparison Table [1]

	Louisville Gas & Electric Company A3 Stable			Kentucky Power Company Baa2 Negative			Black Hills Power, Inc. A3 Stable			Empire District Electric Company (The) Baa1 Stable		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18
Revenue	1,430	1,453	1,492	655	643	659	268	288	293	613	627	682
CFO Pre-W/C	518	547	479	110	150	136	87	87	96	210	202	258
Total Debt	1,873	1,984	2,067	936	934	940	354	351	351	927	893	894
CFO Pre-W/C / Debt	27.6%	27.6%	23.2%	11.7%	16.1%	14.5%	24.5%	24.7%	27.5%	22.7%	22.7%	28.8%
CFO Pre-W/C – Dividends / Debt	20.8%	17.9%	15.9%	7.0%	12.3%	12.6%	9.6%	12.7%	12.7%	17.8%	18.6%	21.9%
Debt / Capitalization	35.3%	39.1%	39.4%	41.3%	46.8%	45.8%	37.4%	41.2%	41.4%	42.6%	44.9%	44.7%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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CREDIT OPINION
27 October 2017

Update

Rate this Research

RATINGS

Louisville Gas & Electric Company

Domicile	Louisville, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Louisville Gas & Electric Company

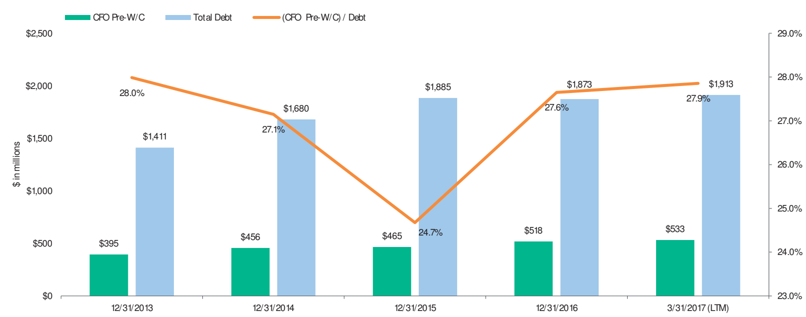
Update to credit analysis

Summary

Louisville Gas & Electric Company's (LG&E, A3 stable) credit strengths includes its stable financial performance and the credit supportive Kentucky regulatory environment under which it operates. These are slightly offset, in part, by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

Exhibit 1

Historical CFO Pre-WC, Total Debt, and CFO Pre-WC to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Supportive regulatory environment in Kentucky

» Strong and stable financial metrics

Credit Challenges

» Large capital expenditure program

» High coal concentration in its generation fuel mix

Rating Outlook

LG&E's stable outlook reflects its supportive regulatory environment in Kentucky and stable financial performance. Also, it incorporates in our expectation that LG&E's credit metrics remain stable.

Factors that Could Lead to an Upgrade

It is unlikely that LG&E's rating will be upgraded in the near-term, given its large upcoming capital expenditure program and funding needs. However, ratings could be upgraded if the company received more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintained its cash flow from operation before changes in working capital (CFO Pre-WC) to debt ratio at 26% or above on a sustained basis.

Factors that Could Lead to a Downgrade

LG&E's ratings could be downgraded should there be any materially unfavorable regulatory developments or unanticipated changes are made to the regulatory compact that currently provides for timely recovery of costs, resulting in the company's CFO pre-WC to debt declining below 20% for an extended period of time.

Key Indicators

Exhibit 2

KEY INDICATORS [1]
Louisville Gas & Electric Company -Private

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	6/30/2017(L)
CFO pre-WC + Interest / Interest	11.9x	10.1x	8.8x	8.0x	8.1x
CFO pre-WC / Debt	28.0%	27.1%	24.7%	27.6%	27.9%
CFO pre-WC – Dividends / Debt	21.0%	20.5%	18.4%	20.8%	18.0%
Debt / Capitalization	35.7%	37.0%	37.5%	35.3%	35.6%

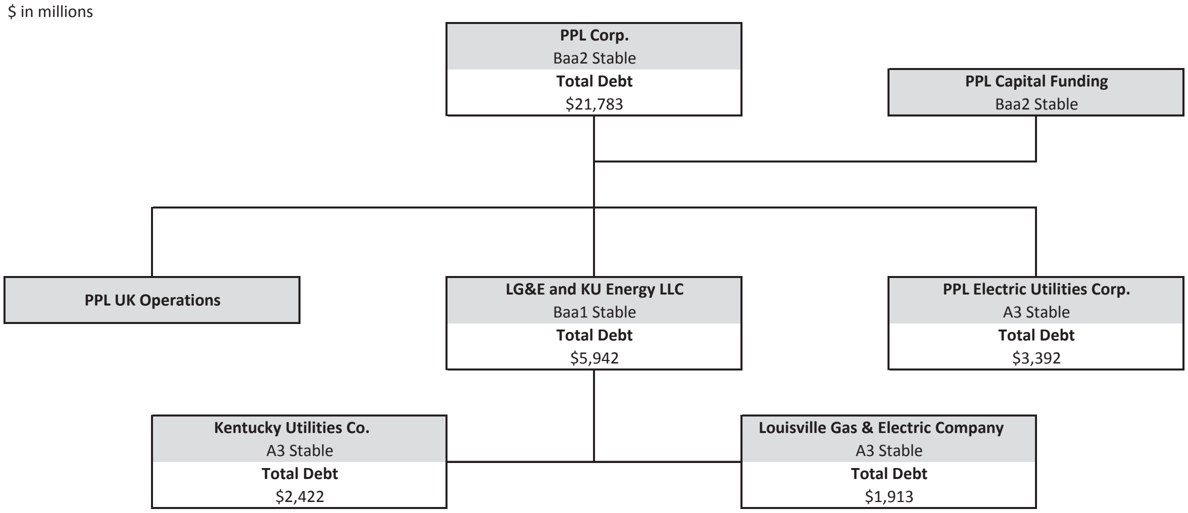
[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Financial Metrics

Profile

Louisville Gas and Electric Company (LG&E, A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas in Kentucky. It provides electricity to approximately 407,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 324,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable). LG&E and its affiliate, Kentucky Utilities (KU, A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL, Baa2 stable), a utility holding company headquartered in Allentown, PA.

Exhibit 3
Organizational Structure
As of 30 June 2017
$ in millions



Total debt is based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics, company

Detailed Credit Considerations

- Supportive regulatory environment provides timely cost recovery

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long-term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case, shortening regulatory lag. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT) and a Demand-Side Management (DSM) Cost Recovery Mechanism. LG&E does not have a decoupling mechanism in place, which subjects LG&E's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because LG&E has the DSM mechanism.

LG&E's last general rate case concluded in June 2017 when its case was settled. In the settlement, LG&E agreed to electric and gas revenue increases of $57.1 million and $6.8 million, respectively. The settlement provided for a 9.7% return on equity (ROE) but did not specify the allowed equity capitalization. In its order, the KSPC excluded the recovery of certain costs for funding employee retirement plans. Prior to the settlement sent before the commission, LG&E agreed to withdraw its request to recover costs related to its Advanced Meter System Project reducing its revenue requirement by about $5.9 million. The withdrawal of its request to recover those costs does not preclude LG&E from asking the commission to consider cost recovery in the future.

In January 2016, LG&E and affiliate utility Kentucky Utilities (KU, A3 stable) submitted applications to the KPSC, requesting the ECR rate treatment for projects related to the US Environmental Protection Agency's (EPA) regulations addressing the handling of coal and combustion by-products and MATS (mercury and air toxics standards). In August 2016, the KPSC approved the settlement and authorized a 9.8% ROE for the projects. However, on 23 June 2017, the KPSC also lowered the authorized ROE to 9.7% for all of LG&E's and KU's existing approved ECR plans and projects. Effective August 2017, the lower ROE replaces the previously authorized ROE for approved ECR projects. The company expects that this change will have a low impact on 2017.

- High capital expenditure planned over the next five years

LG&E's 2017-2021 capital expenditure plan is estimated to be $2.7 billion compared to $2.6 billion spent between 2012 and 2016. Of the $2.7 billion planned capital expenditure, approximately $645 million will be related to its environmental investments. The total estimated amount represents about 54% of the company's net book value of property, plant and equipment, which stood at about $5 billion at the end of the second quarter of 2017.

We expect the potential disallowance risk associated with large capital expenditures to be meaningfully moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with complying with the Clean Air Act compliance and coal combustion waste and by-product environmental requirements. The terms of the ECR allows LG&E to receive the return of and a return on the investment starting two months after making the investment. This is more credit supportive compared to the traditional process where there would be longer regulatory lag due to the length of the construction period plus the rate case proceeding.

- High reliance on coal as fuel for generation

LG&E's current generation fuel mix is heavily biased towards coal. Of its 2.9 GW of generating capacity, 2.1 GW (71%) is coal-fired, which provides the majority (87%) of the electricity generation output. The remaining 29% of the generating capacity is comprised mainly of gas- or oil- fired facilities. LG&E's fuel mix improved over the last two years with the addition of a new gas-fired combined-cycle power plant. In June 2015, the 640-MW gas plant at Cane Run started its commercial operations, replacing a retired coal-fired plant at Cane Run.

The fuel concentration in coal is credit negative. However, the risk associated with coal is mostly mitigated by Kentucky's support of the coal industry. This support is evidenced by the passage of the ECR, which provides the company with credit supportive terms and cost recovery for its investments in coal-related environmental expenditures. Kentucky is also one of the 30 states that filed lawsuits to overturn the Clean Power Plan (CPP), which the Supreme Court stayed on 9 February 2016. LG&E has decided not to incorporate its CPP spending in its current capital plan as the issue continues to be litigated.

- Stable financial profile supports robust capital expenditure

LG&E's financial metrics have been strong. As of 30 June 2017, CFO pre-WC to debt was 27.9% for the last twelve months (LTM) and averaged 27% for the past three years. Total debt to capitalization was 35.6% for the last twelve months and averaged 37% for the past three years. We expect LG&E's financial metrics to remain at similar levels over the next few years as it benefits from the extension of bonus depreciation tax credit while the large capital expenditure program continues. Also, we expect the pace of the cash flow from operations to keep up with the investment as a result of the various rider mechanisms that are in place and of the latest rate case outcome.

Liquidity Analysis

LG&E's short-term rating is P-2 and we expect LG&E to maintain adequate liquidity over the next 12-18 months.

LG&E has a $500 million syndicated credit facility maturing in January 2022. As of 30 June 2017, after accounting for all commercial paper and letter of credits issued, LG&E had $293 million of the revolving facility available. For the past twelve months ending June 2017, LG&E had negative free cash flow of $95 million, which is likely to remain negative in coming years given its large capital expenditure program. LG&E's next debt maturity is $300 million of Secured Notes maturing in 2025.

LG&E and KU Energy LLC (LKE, Baa1 stable), the intermediate parent company of LG&E, manages the liquidity of its Kentucky utility operations on a consolidated basis. In addition to the credit facility at LG&E, LKE and KU have separate stand-alone revolving credit facilities. LKE has its own $75 million of syndicated credit facility that expires in October 2018. KU has a $400 million syndicated credit facility expiring in January 2022 and a $198 million letter of credit facility expiring in October 2020. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of 30 June 2017.

Rating Methodology and Scorecard Factors

Exhibit 4

Rating Factors				
Louisville Gas & Electric Company -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.7x	Aaa	7x - 9x	Aaa
b) CFO pre-WC / Debt (3 Year Avg)	27.5%	A	28% - 32%	Aa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.9%	A	21% - 25%	A
d) Debt / Capitalization (3 Year Avg)	36.0%	A	33% - 37%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 6/30/2017(L)
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1096379

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Research Update:

PPL Corp. Ratings Affirmed; Outlook Stable

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Research Update:

PPL Corp. Ratings Affirmed; Outlook Stable

Overview

- U.S. regulated utility holding company PPL Corp. has demonstrated a gradual improvement in profitability as its level of earned returns has stabilized, strengthening its competitive position.
- The improvement in profitability reflects the company's transformation into a fully regulated utility holding company following the spin-off of its merchant generation in 2015 combined with improved regulatory risk management as the company has successfully recovered costs through various regulatory mechanisms.
- We are affirming all our ratings on PPL Corp., including the 'A-' issuer credit rating. The outlook remains stable.
- The stable outlook is based on the company's steady fully regulated utility business model and ongoing cost recovery that supports steady operating cash flow.

Rating Action

On Sept. 15, 2017, S&P Global Ratings affirmed its 'A-' issuer credit rating and 'A-2' short-term rating on PPL Corp. The outlook is stable.

Rationale

The ratings on PPL Corp. (PPL) are based on its low-risk, electric utility operations in the U.S. and the U.K., along with natural gas distribution operations in Kentucky. PPL maintains credit protection measures in the 13%–14% range.

The company's competitive position has improved as we project more consistent returns at PPL's various operating subsidiaries, which include Kentucky Utilities, Louisville Gas and Electric, PPL Electric Utilities, and Western Power Distribution (located in the U.K.). The profitability improvement reflects in part recently approved rate cases across its U.S. jurisdictions which demonstrate better regulatory risk management. PPL routinely takes advantage of various regulatory mechanisms that allow the company to recover costs with limited regulatory lag in the U.S. while also benefiting from predictable U.K. regulation, which sets revenues eight years in advance and provides incentives that allow companies to earn above their allowed returns. The spin-off of its merchant assets in 2015, which transformed the company into a fully rate-regulated company, has also contributed to the stable trend. As a result, we now consider PPL's competitive position as excellent, to acknowledge the company's enhanced ability to earn its allowed return on a consistent basis. The change does not affect ratings, but it strengthens the company's position within the 'A-' category.

We view PPL's business risk profile as excellent incorporating the company's ownership solely of regulated integrated and low-risk transmission and distribution utility operations. Moreover, PPL's business risk profile benefits from geographic and regulatory diversity, serving about 10 million customers across two states in the U.S. as well as across the U.K. Although the service territories demonstrate only modest growth, residential and commercial customers contribute the majority of revenue and sales, providing a measure of stability and predictability to cash flow generation.

PPL's regulated utility subsidiaries benefit from operations under constructive, transparent, and generally stable regulatory frameworks in the U.S. and U.K. Moreover, these subsidiaries take full advantage of various constructs available within their respective regulatory frameworks to consistently earn returns that are close to or at the authorized levels.

We assess PPL's financial risk profile as being in the significant category using our more moderate financial ratio benchmarks. Under our base-case scenario, we project that PPL will achieve FFO to debt of 13%-14% over the next few years. We expect credit measures to improve, benefiting from rate case decisions and the timely recovery of invested capital, primarily in transmission investments as well as from approved environmental compliance spending in Kentucky. We anticipate that the company's debt leverage will remain elevated with debt to EBITDA that is close to 5x, in large part influenced by the capitalization of the U.K. subsidiaries.

Liquidity

We assess PPL's liquidity as adequate because we believe its liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a satisfactory standing in credit markets.

Principal liquidity sources:

- Revolving credit facility availability of about $4.5 billion;
- Cash and liquid investments of about $470 million; and
- Cash FFO of about $3.1 billion.

Principal liquidity uses:

- Debt maturities, including outstanding commercial paper, of about $2.2 billion;
- Capital spending of $3.5 billion;
- Dividend of about $1.1 billion; and
- Working capital outflow of $50 million.

Outlook

The stable outlook on PPL Corp. and its subsidiaries is based on our assessments of the company's excellent business risk profile that we view at the upper end of the range and significant financial risk profile, which is at the lower end of the range. Under our base-case scenario we expect that FFO to debt will range from 13% to 14% while debt to EBITDA will remain elevated at over 5x.

Downside scenario

We could lower the ratings on PPL and its subsidiaries if core credit ratios weaken such that FFO to debt is below 13% on a consistent basis while maintaining the current level of business risk.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, higher ratings would largely depend on PPL achieving FFO to debt of more than 18% on a consistent basis while maintaining the current level of business risk.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/A-2

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile : a-
- Group credit profile: a-

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

PPL Corp.
PPL Electric Utilities Corp.
PPL Capital Funding Inc.
Louisville Gas & Electric Co.
Kentucky Utilities Co.
LG&E and KU Energy LLC
Corporate Credit Rating A-/Stable/--

PPL Corp.
PPL Electric Utilities Corp.
PPL Capital Funding Inc.
Louisville Gas & Electric Co.
Kentucky Utilities Co.
Commercial Paper A-2

Kentucky Utilities Co.
Louisville Gas & Electric Co.
PPL Electric Utilities Corp.

Senior Secured	A
Recovery Rating	1+
PPL Corp.	
LG&E and KU Energy LLC	
PPL Capital Funding Inc.	
Senior Unsecured	BBB+
PPL Capital Funding Inc.	
Junior Subordinated	BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Summary:
Kentucky Utilities Co.

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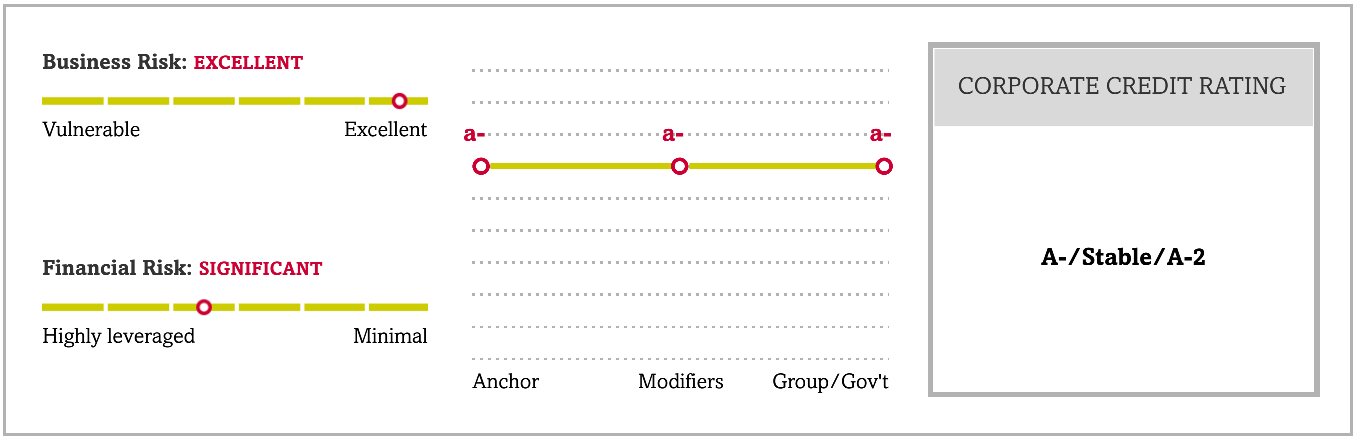
Summary:

Kentucky Utilities Co.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated and vertically integrated electric utility. • Operates under a generally constructive and credit-supportive regulatory framework in Kentucky. • Limited geographic diversity and relatively small customer base. • Material exposure to coal-fired generation results in some operating and environmental risk.	• Core credit ratios support the assessment of a significant financial risk profile using moderate financial benchmarks compared to the typical corporate issuer. • Balanced capital structure supports overall credit profile. • Capital expenditures, primarily driven by environmental spending, leading to negative discretionary cash flows.

Outlook: Stable

The stable rating outlook on Kentucky Utilities Co. (KU) reflects S&P Global Ratings' outlook on its parent, PPL Corp. (PPL), because KU is viewed as a core subsidiary of its parent.

The stable outlook on PPL is based on the company's excellent business risk profile that we view at the upper end of the range and significant financial risk profile, which is at the lower end of the range. Under our base case scenario we expect that funds from operations (FFO) to debt will range from 13%-14% while debt to EBITDA will remain elevated at over 5x.

Downside scenario

We could lower the ratings on PPL and its subsidiaries, including KU, if core credit ratios weaken such that FFO to debt is below 13% on a consistent basis over the next 12 to 18 months, while maintaining the current level of business risk.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings on PPL and its subsidiaries during the outlook period. However, higher ratings would largely depend on PPL achieving FFO to debt of more than 18% on a consistent basis over the next 12 to 18 months, while maintaining the current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin growth primarily benefits from anticipated base-rate increases and the timely recovery of planned environmental compliance costs.
- Elevated capital spending of about $550 million to $650 million per year through 2019 mainly for upgrading generation to meet environmental regulations and investment on transmission and distribution infrastructure.
- All debt maturities are refinanced.

Key Metrics

	2016A	2017E	2018E
FFO to debt (%)	23.8	21-23	20-22
Debt to EBITDA (x)	3.4	About 3.5	About 3.5

A--Actual. E—Estimate. FFO—Funds from operations.

Company Description

KU is a vertically integrated electric utility providing service to about 550,000 customers mostly in Kentucky.

Business Risk: Excellent

We assess KU's business risk profile based on the company's regulated integrated utility operations under a generally constructive regulatory framework in Kentucky that provides for timely recovery of approved capital expenditures.

KU lacks scale and geographic diversity since it operates mainly in the state of Kentucky with some operations in Virginia. The customer mix is mostly residential and commercial, which insulates the company from fluctuations in electricity demand and results in relatively stable cash flows.

The company has generation capacity of about 5,000 megawatts (MW). Because much of the generation is coal-fired, the company has been upgrading its plants to comply with environmental regulations. However, the company can recover the costs for these upgrades through an environmental cost recovery mechanism, which limits regulatory lag and is supportive of the credit profile. Under the regulation of the Kentucky Public Service Commission (PSC), the company benefits from other recovery mechanisms such as a pass-through fuel cost and a purchased power cost recovery rider. These mechanisms increase the stability of the company's returns. Moreover, the company's low-cost,

Summary: Kentucky Utilities Co.

coal-fired generation and efficient operations contribute to the overall competitive rates for customers.

Financial Risk: Significant

Under our base-case scenario, we project that KU's FFO to debt will range from 20%-23% and debt to EBITDA will remain about 3.5x. Over the next few years, we expect credit measures to benefit from the use of regulatory mechanisms to recover its invested capital cost. Our assessment also includes a recently approved base-rate increase of about $50 million.

We assess KU's financial risk profile as significant using moderate financial benchmarks compared to the typical corporate issuer, accounting for the company's low-risk regulated electric transmission and distribution operations, which are partially offset by relatively higher-risk regulated generation.

Liquidity: Adequate

We assess KU's liquidity as adequate to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for this designation under our criteria and that the company will also meet our other requirements for such a designation.

We view KU as having well-established and solid bank relationships, the ability to absorb high-impact, low-probability events without the need for refinancing, and a satisfactory standing in credit markets.

Additionally, we expect that KU's liquidity will benefit from stable cash flow generation, a $400 million revolving credit facility, sufficient liquidity support provided by the parent to meet ongoing needs, and manageable debt maturities over the next few years.

Principal Liquidity Sources	Principal Liquidity Uses
• Minimal cash balance assumed; • Revolving credit facility of $400 million; and • Cash FFO of $660 million-$665 million.	• Debt maturities of about $50 million; • Capital expenditure of $600 million; and • Common stock dividends of about $265 million to $270 million.

Group Influence

KU is subject to our group rating methodology criteria. We assess KU as a core subsidiary of parent PPL Corp. because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect KU from its parent. As a result, the issuer credit rating on KU is 'A-', in line with PPL's group credit profile of 'a-'.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Issue Ratings

The short-term rating on KU is 'A-2', based on the issuer credit rating of 'A-'.

Recovery Analysis

KU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017

Summary: Kentucky Utilities Co.

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

S&P Global
Ratings

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Summary:

Louisville Gas & Electric Co.

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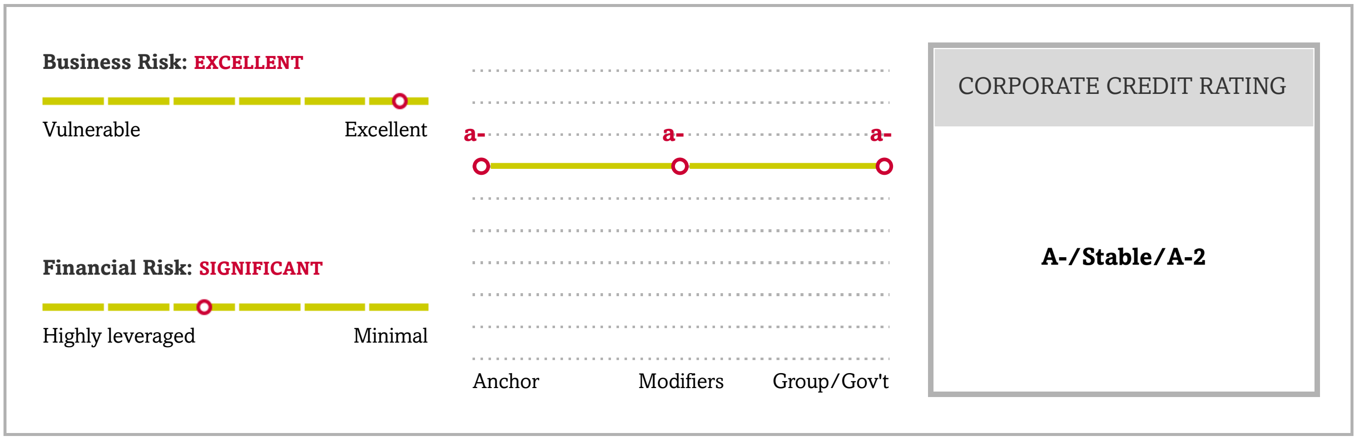
Summary:

Louisville Gas & Electric Co.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Vertically integrated electric and natural gas distribution utility. • Operates under a generally constructive and credit-supportive regulatory framework in Kentucky. • Limited service territory and midsized customer base.	• Core credit ratios support a significant financial risk profile assessment using moderate financial benchmarks compared to the typical corporate issuer. • Elevated capital expenditure program, with focus on distribution infrastructure investment and environmental compliance spending, leading to negative discretionary cash flow. • Balanced capital structure supports overall credit profile.

Outlook: Stable

The stable rating outlook on Louisville, Ky.-based Louisville Gas & Electric Co. (LG&E) reflects the rating outlook on its parent, PPL Corp. (PPL), because S&P Global Ratings views LG&E as a core subsidiary of its parent.

The stable outlook on PPL is based on the company's excellent business risk profile that we view at the upper end of the range and significant financial risk profile, which is at the lower end of the range. Under our base-case scenario we expect that funds from operations (FFO) to debt will range from 13%-14% while debt to EBITDA will remain elevated at over 5x.

Downside scenario

We could lower the ratings on PPL and its subsidiaries, including LG&E, if core credit ratios weaken such that FFO to debt is below 13% on a consistent basis over the next 12 to 18 months, while maintaining the current level of business risk.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, higher ratings would largely depend on PPL achieving FFO to debt of more than 18% on a consistent basis over the next 12 to 18 months, while maintaining the current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin growth is primarily driven by anticipated base rate increases and the timely recovery of planned environmental compliance costs.
- Elevated capital spending of about $600 million annually for the next few years, mainly for distribution infrastructure investment and upgrading generation to comply with environmental regulations.
- Discretionary cash flow to remain negative due to higher capital expenditures and dividends.
- All debt maturities are refinanced.

Key Metrics

	2016A	2017E	2018E
FFO/debt (%)	25.5	21-23	21-23
Debt/EBITDA (x)	3.4	About 3.5	About 3.5

A--Actual. E—Estimate. FFO—Funds from operations.

Company Description

LG&E operates in and around Louisville, Ky., where it provides electricity service to 400,000 customers and natural-gas distribution service to 320,000 customers.

Business Risk: Excellent

We assess LG&E's business risk profile based primarily on the company's regulated integrated electric utility and natural gas distribution operations under the generally constructive regulatory framework in Kentucky.

LG&E has limited scale, scope, and diversity, serving a customer base of about 400,000 electric and about 320,000 natural gas customers in Louisville. The customer base consists largely of residential and commercial customers, insulating the company from fluctuations in demand and providing stability to the company's cash flows. Our assessment also accounts for the modest operating diversity of the company due to its electric and natural gas operations.

The company has about 3,000 megawatts (MW) of generation capacity, which has higher operating risk than transmission and distribution (T&D) operations. The company has been upgrading its coal-fired generation plants to comply with environmental regulations. While the capital costs of these upgrades are significant, spending can be recovered through an environmental cost recovery mechanism, which limits regulatory lag and is supportive of the credit profile. Under the regulation of the Kentucky Public Service Commission (PSC), the company benefits from other mechanisms such as a gas line tracker and a pass-through fuel cost mechanism. These mechanisms increase the stability of the company's returns.

Moreover, the company's low-cost coal-fired generation and efficient operations contribute to overall competitive rates for customers.

Financial Risk: Significant

Under our base-case scenario, we project that LG&E's FFO to debt will range from 21%-23% and debt to EBITDA will remain about 3.5x. Over the next few years, we expect credit measures to benefit from the company's use of regulatory mechanisms to recover its invested capital. Our assessment also includes recently approved rate case outcomes that increased electric rates by about $57 million and gas rates by about $7 million.

We assess LG&E's financial risk profile as significant using moderate financial benchmarks compared to the typical corporate issuer, accounting for the company's low-risk regulated electric T&D and natural gas distribution operations, which are partially offset by relatively higher-risk regulated generation.

Summary: Louisville Gas & Electric Co.

Liquidity: Adequate

We assess LG&E's liquidity as adequate to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for this designation under our criteria and that the company will also meet our other requirements for such a designation.

We view LG&E as having well-established and solid bank relationships, the ability to absorb high-impact, low-probability events without the need for refinancing, and a satisfactory standing in credit markets.

Additionally, we expect that LG&E's liquidity will benefit from stable cash flow generation, a $500 million revolving credit facility, sufficient liquidity support provided by the parent to meet ongoing needs, and manageable debt maturities over the next few years.

Principal Liquidity Sources	Principal Liquidity Uses
• Minimal cash balance assumed; • Revolving credit facility of $500 million; and • Cash FFO of about $550 million.	• Debt maturities of about $200 million; • Maintenance capital expenditure of about $550 million; and • Common stock dividends of about $145 million.

Group Influence

We assess LG&E as a core subsidiary of parent PPL Corp. because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a major contributor to the group, and is closely linked to the parent's reputation. Moreover, there are no meaningful insulation measures in place that protect LG&E from its parent. As a result, the issuer credit rating on LG&E is 'A-', in line with the group credit profile of 'a-'.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Issue Ratings

The short-term rating on LG&E is A-2, based on our issuer credit rating of 'A-'.

Recovery Analysis

LG&E's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 89

Responding Witness: Daniel K. Arbough

Q-89. Provide the corporate credit and bond ratings assigned to PPL, Louisville Gas & Electric, and Kentucky Utilities since the year 2012 by S&P, Moody's, and Fitch. For any change in the credit and/or bond rating, provide a copy of the associated report.

A-89. The most recent ratings and outlook assigned by S&P and Moody's are provided below. In January 2015, Fitch withdrew its ratings for PPL, LG&E, and KU at the request of the Companies. Please see attached for copies of reports for changes in credit and/or bond rating.

LG&E Credit Ratings

Date	Moody's		S&P		Fitch	
	Issuer/Corp. Credit Rating	Secured Debt Rating	Issuer/Corp. Credit Rating	Secured Debt Rating	Issuer/Corp. Credit Rating	Secured Debt Rating
1/1/2012	Baa1	A2	BBB	A-	A-	A+
1/31/2014	**A3**	**A1**	BBB	A-	A-	A+
1/9/2015	A3	A1	BBB	A-	**Ratings Withdrawn**	
6/1/2015	A3	A1	**A-**	**A**		

KU Credit Ratings

Date	Moody's		S&P		Fitch*	
	Issuer/Corp. Credit Rating	Secured Debt Rating	Issuer/Corp. Credit Rating	Secured Debt Rating	Issuer/Corp. Credit Rating	Secured Debt Rating
1/1/2012	Baa1	A2	BBB	A-	A-	A+
1/31/2014	**A3**	**A1**	BBB	A-	A-	A+
1/9/2015	A3	A1	BBB	A-	**Ratings Withdrawn**	
6/1/2015	A3	A1	**A-**	**A**		

PPL Corp. Credit Ratings

Date	Issuer/Corp. Credit Rating		
	Moody's	S&P	Fitch
1/1/2012	Baa3	BBB	BBB+
1/9/2015	Baa3	BBB	**Ratings Withdrawn**
5/11/2015	**Baa2**	BBB	
6/1/2015	Baa2	**A-**	

MOODY'S
INVESTORS SERVICE

Moody's upgrades the ratings of PPL US utility subsidiaries and confirms the rating of PPL Corp. and LKE; rating outlook stable.

31 Jan 2014

Approximately $10.8 Billion of Debt Affected

New York, January 31, 2014 -- Moody's Investors Service today upgraded the ratings of PPL Corporation's US utility operating subsidiaries: the rating of PPL Electric Utilities (PPLEU) was upgraded to Baa1 from Baa2 and the ratings of Louisville Gas & Electric Company (LGE) and Kentucky Utilities (KU) were upgraded to A3 from Baa1. Moody's confirmed the senior unsecured ratings of PPL Corporation (PPL) at Baa3 and of LG&E and KU Energy LLC (LKE) at Baa2. This rating action completes our review of PPL and its regulated operations initiated on November 8, 2013. The outlook for all PPL entities is stable.

The primary driver of today's positive rating action on PPL's US utility operating companies was Moody's more favorable view of the relative credit supportiveness of the US regulatory environment, as detailed in our September 2013 Request for Comment titled "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

The review, however, did not result in a corresponding upgrade for the parent holding company PPL because the upgrades of PPL's US regulated utilities, which represent 31% of earnings, did not shift PPL's consolidated credit profile sufficiently. PPL's consolidated financial metrics are also weak for its rating category. LKE did not receive an upgrade because of the high debt level at LKE relative to the consolidated LKE. Moreover, because there is free movement of cash between PPL and LKE, PPL has a constraining effect on LKE's ratings.

RATINGS RATIONALE

The ratings of PPL and its utility subsidiaries are underpinned by regulatory environments that, while they may vary somewhat from jurisdiction to jurisdiction, are generally supportive of utility credit quality and by an energy commodity market that has alleviated some of the pressure on rates generally. Additionally, PPL's rating is reflective of the consolidated credit profile which has been transformed from a heavily merchant commodity driven and regionally focused operation, to a more diversified and mostly rate regulated platform. These positive factors are balanced against financial metrics on a consolidated basis that have been on the lower end of the range for benchmarks established for regulated utilities. As of end of third quarter 2013, PPL's CFO Pre-WC/debt averaged over the past three years is 15.5%, while the benchmark for regulated utilities in the Baa category is between 13% and 22%.

Rating Outlook

The stable outlook for PPL reflects our view that PPL's credit quality has been fortified through the growing share of its regulated business. The stable outlook also incorporates a view that the company's large capital investment will be prudently financed, to include if needed, the issuance of common equity. The unregulated generation assets' cash flow generating capacity is expected to be lower over the next several years but further downsides are moderated by hedging and its declining share to the consolidated cash flow.

What Could Change the Rating -- Up

Potential for upgrade is currently limited by its financial metrics which are weak for its ratings. Upgrade is possible if exposure to unregulated activity continue to decline while cash flow to debt ratio improves 20% or above on a sustained basis.

What Could Change the Rating - Down

While we do not foresee any particular event that would result in a negative rating action, the company's cash flow to debt credit metrics are expected to be weaker going forward due to the declining cash flow coming from its unregulated operations. As a result, the company has a smaller margin of error for a negative rating action.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Issuer: PPL Corporation

Outlook revised to stable from RUR-UP

Confirmed:

LT Issuer Rating: Baa3

Pref. Shelf ratings: (P)Ba2

Issuer: PPL Electric Utilities Corporation

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to Baa1 from Baa2

Senior unsecured to Baa1 from Baa2

Senior secured to A2 from A3

First Mortgage Bonds to A2 from A3

Preference Shelf to (P)Baa3 from (P)Ba1

Senior Secured Shelf to (P)A2 from (P)A3

Affirmed:

Commercial paper rating of P-2

Issuer: LG&E and KU Energy LLC

Outlook revised to stable from RUR-UP

Confirmed:

LT Issuer Rating: Baa2

Senior unsecured: Baa2

Senior unsecured Self: (P)Baa2

Issuer: Louisville Gas & Electric Company

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to A3 from Baa1

Senior unsecured to A3 from Baa1

Senior secured to A 1 from A2

Senior secured Shelf to (P)A1 from (P)A2

Affirmed:

Commercial Paper ratings: P-2

Issuer: Kentucky Utilities Co.

Outlook revised to stable from RUR-UP

Upgraded:

LT Issuer Rating to A3 from Baa1

Senior unsecured to A3 from Baa1

Senior secured to A1 from A2

Senior secured Shelf to (P)A1 from (P)A2

Affirmed:

Commercial Paper rating: P-2

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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MOODY'S
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Research Update:

PPL Corp. Rating Raised To 'A-' From 'BBB' On Improved Business Risk Profile; Stable Outlook

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Research Update:

PPL Corp. Rating Raised To 'A-' From 'BBB' On Improved Business Risk Profile; Stable Outlook

Overview

- U.S. utility company PPL Corp. (PPL) has completed the spin-off of its merchant generation assets leading to a material improvement to the company's business risk profile.
- PPL will now focus on regulated utility operations in the US and the UK.
- We are raising the issuer credit rating on PPL and its U.S.-based subsidiaries to 'A-' from 'BBB' and removing the ratings from CreditWatch with positive implications. The outlook is stable.

Rating Action

On June 1, 2015, Standard & Poor's Ratings Services raised its issuer credit rating on PPL Corp. and its U.S.-based subsidiaries to 'A-' from 'BBB' and removed the ratings from CreditWatch, where they were placed with positive implications on June 10, 2014 . The outlook is stable.

Rationale

PPL has completed the spin-off of its merchant generation assets resulting in sufficient improvement in business risk to move the company's business risk profile to the "excellent" category from "strong". We are raising the issuer credit rating on PPL and its US-based subsidiaries PPL Electric Utilities Corp. (PPLEU), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU) to 'A-' from 'BBB'.

PPL's "excellent" business risk profile accounts for the company's ownership of solely regulated utility operations, both integrated as well as lower risk transmission and distribution utilities. PPL's regulated subsidiaries benefit from operations under constructive, transparent and generally stable regulatory frameworks and they take full advantage of all constructs available within the respective regulatory framework to consistently earn returns that are close to or at the authorized levels. Moreover, PPL's business risk profile benefits from scale, serving more than 10 million customers in two countries and and two states, and operating and regulatory diversity, although the service territory demonstrates only modest growth.

We assess PPL's financial risk profile as being in the "significant" category using the medial volatility financial ratio benchmarks. Under our base-case scenario, we project that PPL will achieve funds from operations (FFO) to debt of 14% to 15% over the next few years, benefiting from pending rate case decisions and the timely recovery of invested capital, primarily in transmission investments. We anticipate that the company's debt leverage will remain elevated with debt to EBITDA that is close to 5x, in large part influenced by the capitalization of the U.K. subsidiaries.

Liquidity

We assess PPL's liquidity as "adequate" to cover its needs over the next 12 months. We expect the company's liquidity sources to exceed its uses by 1.1x or more, the minimum threshold for regulated utilities under our criteria, and that the company will also meet our other requirements for such a designation. We expect that PPL's liquidity will benefit from stable cash flow generation, ample availability under the revolving credit facilities, and manageable debt maturities over the next few years.

The PPL group has about $4 billion in revolving credit facilities, with $815 million available at the parent, $300 million available at PPLEU, $500 million available at Louisville Gas & Electric, $598 million available at Kentucky Utilities, and about $1.75 billion available at the U.K. operations. The facilities mature from 2016 through 2019.

Principal liquidity sources:

- Revolving credit facilities totaling about $3.3 billion.
- Cash on hand of about $1.5 billion.
- Cash from operations of about $2.5 billion to $2.7 billion.

Principal liquidity uses:

- Debt maturities of about $2.2 billion, including commercial paper.
- Maintenance capital spending averaging about $2.3 billion.
- Dividends of about $1 billion annually.

Outlook

The stable outlook on PPL and its subsidiaries is based on the company's "excellent" business risk profile that we view at the upper end of the range and "significant" financial risk profile, which is at the lower end of the range. Under our base case scenario we expect that FFO to debt will range from 14% to 15% while debt to EBITDA will remain elevated at about 5x.

Downside Scenario

We could lower the ratings on PPL and its subsidiaries if core credit ratios weaken such that FFO to debt is below 13% and debt to EBITDA exceeds 5x on a consistent basis.

Upside Scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, higher ratings would largely depend on PPL achieving FFO to debt of more than 18% on a consistent basis, while maintaining the current level of business risk.

Ratings Score Snapshot

	To	From
Corporate Credit Rating	A-	BBB
Business Risk	Excellent	Strong
Country Risk	Very Low	Very Low
Industry Risk	Very Low	Low
Competitive Position	Strong	Strong
Financial Risk	Significant	Significant
Cash Flow/Leverage	Significant	Significant
Anchor	a-	bbb
Modifiers		
Diversification/Portfolio effect	Neutral	Neutral
Capital structure	Neutral	Neutral
Financial policy	Neutral	Neutral
Liquidity	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Comparable rating analysis	Neutral	Neutral

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property - February 14, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery - November 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue - April 15, 2008

Ratings List

	Ratings	
	To	From
PPL Corp.		
Corporate credit rating		
Foreign and Local Currency	A-/Stable/--	BBB/Watch Pos/--
Kentucky Utilities Co.		
Corporate credit rating		
Foreign and Local Currency	A-/Stable/A-2	BBB/Watch Pos/A-2
Senior Secured		
Local Currency [#1]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#1]	1+	1+
Local Currency [#2]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#2]	1+	1+
Local Currency [#3]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#3]	1+	1+
Local Currency [#4]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#4]	1+	1+
SPUR [#4]	A/A-2	A-/Watch Pos/A-2
Local Currency [#5]	A	A-/Watch Pos
Recovery Rating [#5]	1+	1+
SPUR [#5]	A	A-/Watch Pos
Local Currency [#4]	A	A-/Watch Pos
Recovery Rating [#4]	1+	1+
SPUR [#4]	A	A-/Watch Pos

Ratings List Continued...

Local Currency	A	A-/Watch Pos
Recovery Rating	1+	1+
Commercial Paper		
Local Currency	A-2	A-2
LG&E and KU Energy LLC		
Corporate credit rating		
Foreign and Local Currency	A-/Stable/--	BBB/Watch Pos/--
Senior Unsecured		
Local Currency	BBB+	BBB-/Watch Pos
Louisville Gas & Electric Co.		
Corporate credit rating		
Foreign and Local Currency	A-/Stable/A-2	BBB/Watch Pos/A-2
Senior Secured		
Local Currency [#6]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#6]	1+	1+
Local Currency [#7]	A	A-/Watch Pos/NR
Recovery Rating [#7]	1+	1+
Local Currency [#6]	A	A-/Watch Pos/NR
Recovery Rating [#6]	1+	1+
Local Currency [#7]	A/A-2	A-/Watch Pos/A-2
Recovery Rating [#7]	1+	1+
Local Currency [#6]	A	A-/Watch Pos
Recovery Rating [#6]	1+	1+
Local Currency [#7]	A	A-/Watch Pos
Recovery Rating [#7]	1+	1+
Local Currency	A	A-/Watch Pos
Recovery Rating	1+	1+

Ratings List Continued...

Commercial Paper		
Local Currency	A-2	A-2
PPL Capital Funding Inc.		
Senior Unsecured		
Local Currency[1]	BBB+	BBB-/Watch Pos
Junior Subordinated		
Local Currency[1]	BBB	BB+/Watch Pos
PPL Electric Utilities Corp.		
Corporate credit rating		
Foreign and Local Currency	A-/Stable/A-2	BBB/Watch Pos/A-2
Senior Secured		
Local Currency [#8]	A	A-/Watch Pos
Recovery Rating [#8]	1+	1+
Local Currency [#9]	AA-/Stable	AA-/Stable
Recovery Rating [#9]	1+	1+
SPUR [#9]	A	A-/Watch Pos
Local Currency [#10]	AA-/Stable	AA-/Stable
Recovery Rating [#10]	1+	1+
SPUR [#10]	A	A-/Watch Pos
Local Currency[2]	A	A-/Watch Pos
Recovery Rating	1+	1+
SPUR	A	A-/Watch Pos
Local Currency	A	A-/Watch Pos
Recovery Rating	1+	1+
Commercial Paper		
Local Currency	A-2	A-2

[1] Dependent Participant(s): PPL Corp.

[2] Dependent Participant(s): Ambac Assurance Corp.

[#1] Issuer: Carroll Cnty, OBLIGOR: Kentucky Utilities Co.

[#2] Issuer: Mercer Cnty, OBLIGOR: Kentucky Utilities Co.

[#3] Issuer: Muhlenberg Cnty, OBLIGOR: Kentucky Utilities Co.

[#4] Issuer: Carroll Cnty, INSPRO: Ambac Assurance Corp., OBLIGOR: Kentucky Utilities Co.

[#5] Issuer: Trimble Cnty, INSPRO: Ambac Assurance Corp., OBLIGOR: Kentucky Utilities Co.

[#6] Issuer: Louisville & Jefferson Cnty Metro Govt, OBLIGOR: Louisville Gas & Electric Co.

[#7] Issuer: Trimble Cnty, OBLIGOR: Louisville Gas & Electric Co.

[#8] Issuer: Pennsylvania Econ Dev Fing Auth, OBLIGOR: PPL Electric Utilities Corp.

[#9] Issuer: Lehigh Cnty Indl Dev Auth, INSPRO: National Public Finance Guarantee Corp., OBLIGOR: PPL Electric Utilities Corp.

[#10] Issuer: Lehigh Cnty Indl Dev Auth, INSPRO: MBIA Insurance Corp., INSPRO: National Public Finance Guarantee Corp., OBLIGOR: PPL Electric Utilities Corp.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings referenced herein can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades PPL Corp. to Baa2 and LKE to Baa1; outlooks stable

Global Credit Research - 11 May 2015

Approximately $ 4.8 billion of debt securities upgraded

New York, May 11, 2015 -- Moody's Investors Service today upgraded the senior unsecured ratings of PPL Corporation (PPL) to Baa2 from Baa3 and its LG&E and KU Energy LLC (LKE) subsidiary to Baa1 from Baa2. At the same time, we have revised PPL Corp and LKE's outlook to stable from positive and revised its PPL Electric Utilities (PPLEU Baa1) subsidiary outlook to positive from stable. The rating actions on PPL and LKE are taken in anticipation that PPL's unregulated subsidiary PPL Energy Supply (Supply; Ba2 stable) will be spun off from PPL on June 1, 2015.

Post spinoff, PPL will have lower business risk because all of its material subsidiaries will be regulated utility companies, leading to an improved credit risk profile. The positive outlook on PPLEU's reflects the continued improvement in Pennsylvania's cost recovery mechanisms as well as the growing share of the transmission operations within PPLEU, which have highly favorable credit characteristics.

Upgrades:

..Issuer: LG&E and KU Energy LLC

.... Issuer Rating, Upgraded to Baa1 from Baa2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

..Issuer: PPL Capital Funding, Inc.

....Junior Subordinated Regular Bond/Debenture, Upgraded to Baa3 from Ba1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: PPL Corporation

.... Issuer Rating, Upgraded to Baa2 from Baa3

Affirmations:

..Issuer: PPL Electric Utilities Corporation

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Regular Bond/Debenture, Affirmed A2

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

Outlook Actions:

..Issuer: LG&E and KU Energy LLC

....Outlook, Changed To Stable From Positive

..Issuer: PPL Capital Funding, Inc.

....Outlook, Changed To Stable From Positive

..Issuer: PPL Corporation

....Outlook, Changed To Stable From Positive

..Issuer: PPL Electric Utilities Corporation

....Outlook, Changed To Positive From Stable

RATINGS RATIONALE

PPL's Baa2 rating reflects the low business risk of its US and UK regulated utilities, offset by substantial debt leverage at the parent holding company. The regulated business is characterized by credit supportive regulatory environments and a currently large capital expenditure program across all major subsidiaries, resulting in substantial negative free cash flow and depressed key credit metrics. As a fully regulated business after the spinoff, PPL will have 70% of its earnings and cash flows coming from a networks or transmission and distribution (T&D) platform and 30% from integrated utilities buisness, all of which provide good visibility from a recovery, earnings and cash flow perspective.

PPL's consolidated CFO Pre-WC to debt has ranged in the 15% to 16% for the past three years and is expected to decline to the 13% to 14% range going forward after the spin. PPL's retained cash flow (RCF) to debt has been in the 11% to 12% range for the past three years and is expected to fall to about 9% to 10% going forward. These credit metrics position the company reasonably well relative to the range of 11% to 19% for CFO Pre-WC/Debt and 7% to 15% for RCF/debt for the Baa rating category as a lower risk concern under our Regulated Electric and Gas Utility methodology. We consider National Grid Plc (Baa1 stable) as the closest peer comparison to PPL.

Liquidity

PPL's liquidity is marginally adequate, but not a significant concern given its low business risk profile after the spin. Due to a high level of capital expenditure, we expect PPL to have more than $1.5 billion of negative free cash flow after dividends each year, plus about $1.8 billion of debt refinancing needs over the next eighteen months. While PPL has significant amount of cash on hand ($1.3 billion at the end of the first quarter of 2015), we expect most of this cash to be used to fund upcoming negative free cash flow. After the spin, the primary source of liquidity will be mainly comprised of $4 billion of bilateral and syndicated credit facilities issued by various entities throughout the PPL family. As of the end of first quarter 2015, there was about $2.7 billion of availability remaining out of the $4 billion total.

Outlook

PPL's stable outlook is supported by its strong regulated business operations in the US and UK and our expectation that management will maintain its capital structure with equity issuance as needed in the face of large capital expenditures and pressure to increase dividends.

What Could Change the Rating -- Up

The potential for a rating upgrade is low due to the large upcoming capital expenditure program and high level of holding company debt. However, upward pressure could result should its consolidated CFO Pre-WC/debt rise to the high teens and its RCF/debt rises to the mid-teens.

What Could Change the Rating - Down

The potential for a rating downgrade could occur should the company increase its debt level, especially at the holding company level. A downgrade could also result should its consolidated CFO-Pre WC/debt falls to the low-teens range or its RCF/debt falls to mid-single digits.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Company Profile

PPL Corporation is a utility holding company headquartered in Allentown, PA. It has three areas of regulated operations: UK regulated, Kentucky regulated, and Pennsylvania regulated. UK regulated is a pure wires business in the United Kingdom with no retail exposure. Kentucky regulated operates under a traditional integrated utility model. Pennsylvania regulated is comprised of a transmission business, mostly regulated by FERC, and a distribution operation regulated by the Pennsylvania Public Utility Commission. After the spin, PPL will control or own about 9,000 MW of generating capacity in the US and sell electricity and natural gas to about 10.3 million customers in the US and UK.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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MOODY'S
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KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 90

Responding Witness: Daniel K. Arbough

Q-90. Provide the breakdown in the expected return on pension plan assets for Louisville Gas & Electric and Kentucky Utilities. Specifically, provide the expected return on different assets classes (bonds, US stocks, international stocks, etc.) used in determining the expected return on plan assets. Provide all associated source documents and work papers.

A-90. See attached.

EROA Assumption: Illustrative building blocks for pension plans

Component	Equity/Alternatives	FI - Corporate	FI - Treasury
Inflation	2.00%	2.00%	2.00%
Real Risk-free Return	-0.20%	-0.20%	-0.20%
Term Premium	0.70%	0.70%	0.70%
Credit Spread	N/A	0.70%	N/A
Equity Risk Premium	5.50%	N/A	N/A
Total	8.00%	3.20%	2.50%
Asset Allocation	55%	30%	15%
Gross Result	4.40%	0.94%	0.38%
Total		5.72%	
Portfolio Effect		0.50%	
Active Management		0.30%	
Non-investment Expense		-0.30%	
Expected Return from Swaps Portfolio		1.00%	
Net Result		7.22%	
Anticipated EROA Assumption		**7.00%**	

KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 91

Responding Witness: Daniel K. Arbough

Q-91. For the past five years, provide the dates and amount of: (1) cash dividend payments made to PPL by Louisville Gas & Electric or Kentucky Utilities; and (2) cash equity infusions made by PPL into Louisville Gas & Electric or Kentucky Utilities.

A-91. All dividend payments from Louisville Gas and Electric Company or Kentucky Utilities Company are made to LKE. Similarly, all cash equity infusions to Louisville Gas and Electric Company or Kentucky Utilities Company are made by LKE. See attached for the amount of these dividends paid and cash equity payments received from LKE.

Payment Date	**Summary of Dividends Paid by KU to LKE** (1)	**Summary of Capital Contibutions Paid by LKE to KU** (2)
3/27/2013	13,000,000	50,000,000
6/27/2013	42,000,000	42,000,000
9/27/2013	28,000,000	
12/30/2013	41,000,000	65,000,000
Total Paid 2013	124,000,000	157,000,000
3/28/2014	37,000,000	40,000,000
6/27/2014	49,000,000	26,000,000
9/29/2014	26,000,000	
12/30/2014	36,000,000	25,000,000
Total Paid 2014	148,000,000	91,000,000
3/30/2015	30,000,000	-
6/29/2015	51,000,000	-
9/29/2015	25,000,000	-
12/30/2015	47,000,000	-
Total Paid 2015	153,000,000	-
3/30/2016	64,000,000	-
6/29/2016	49,000,000	20,000,000
9/29/2016	84,000,000	-
12/29/2016	51,000,000	-
Total Paid 2016	248,000,000	20,000,000
3/30/2017	70,000,000	-
6/29/2017	40,000,000	-
9/28/2017	61,000,000	-
12/28/2017	55,000,000	-
Total Paid 2017	226,000,000	-
3/28/2018	79,000,000	-
6/28/2018	57,000,000	45,000,000
9/27/2018	60,000,000	-
Total Paid 2018	196,000,000	45,000,000

KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 92

Responding Witness: Daniel K. Arbough

Q-92. Provide the Company's authorized and earned return on common equity for Louisville Gas & Electric and Kentucky Utilities over the past five years. Provide copies of all associated work papers and source documents. Provide copies of the source documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

A-92. The historical earned return on common equity for Kentucky Utilities is calculated in the attachment being provided in Excel format.

Period	Authorized ROE	Case No:
2013 – 6/30/2015	10.25%	2012-00221
7/1//2015 – 6/30/2017	10.00%*	2014-00371
7/1/2017 – present	9.70%	2016-00370

**On June 30, 2015, the KPSC approved a settlement agreement. The settlement did not establish a specific return on equity with respect to the base rates, but an authorized 10% return on equity was determined for the ECR and GLT mechanisms.*

The attachment is being provided in a separate file in Excel format.

KENTUCKY UTILITIES COMPANY

Response to Lexington-Fayette Urban County Government's Request for Information Dated November 13, 2018

Case No. 2018-00294

Question No. 93

Responding Witness: Christopher M. Garrett

Q-93. Provide copies of the financial statements (balance sheet, income statement, statement of cash flows, and the notes to the financial statements) for PPL, Louisville Gas & Electric, and Kentucky Utilities for 2016, 2017, and 2018 (when available). Provide copies of the financial statements in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

A-93. See Filing Requirement 807 KAR 5:001 Section 16(7)(p) for the integrated 2016 and 2017 Forms 10-K. These documents contain PPL Corporation's, Louisville Gas and Electric Company's, and Kentucky Utilities Company's notes to the financial statements beginning on page 131 of the 2016 Form 10-K and page 136 of the 2017 Form 10-K. The 2017 Form 10-K contains PPL Corporation's (beginning on page 106), LG&E's (beginning on page 125), and KU's (beginning on page 131) financial statements for the past two years. The 2018 Form 10-K will be provided upon its filing with the Securities and Exchange Commission. The Companies do not maintain these statements in Excel.