

LG&E/KU Legal Merger Assessment

March, 2022

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1. Executive Summary

LG&E and KU Services Company (“LKS” or “Client”) retained PricewaterhouseCoopers Advisory Services LLC (“PwC”) to provide an independent assessment of a potential legal merger of Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”). Collectively, LKS, LG&E and KU are referred to as the “Company”. This report was prepared pursuant to Paragraph 7 of the Kentucky Public Service Commission Order entered April 30, 2019 in Case Nos. 2018-00294 and 2018-00295 (“Order”).

This report was prepared under the direction of Todd J. Jirovec, a Principal at PwC, along with a team of PwC subject matter specialists with experience in topics relevant to this analysis. The analysis was undertaken to provide an objective evaluation of how the Company currently operates and assess the potential implications were LG&E and KU to legally merge.

We developed a series of evaluative attributes to guide the overall analysis. These evaluative questions included the following:

- Has the Company captured synergies typically realized in utility mergers?
- Is it cost effective to maintain two separate utilities and a separate service company to serve the two utilities where the holding company no longer engages in unregulated activity and has no plans to do so in the future?
- Is it cost effective to transfer the employees and corporate functions of LKS, KU and LG&E to the new merged utility, allowing a single operation, albeit under separate marketing brands as desired for a time?
- What is the potential impact to the current and future financing structure under a combined utility?
- What tax considerations need to be addressed under a single utility?
- What are the implications to customer rates and future rate cases from a combined utility?

Several structural assumptions resulting from the legal merger were made based on discussion with management to guide the analysis including:

- Rates for all customer in any particular rate class would be harmonized
- The existing brands would remain in place and be used in their current service territories for the merged company
- Existing First Mortgage Bonds would remain in place
- A Private Letter Ruling from the IRS would be required to address the differences in ITC treatment

Our approach included over 25 interviews with management related to the nature of the activities performed by the Company, the organizational construct of the Company and the manner in which services were planned and executed as of December 1, 2021, among other topics. These interviews were complemented by follow-up discussions and information to obtain additional clarity on the issues and topics related to the potential legal merger. We also reviewed requested information and documents and the prior internal merger studies and workpapers prepared relevant to this assessment. Throughout the assignment, Company management was cooperative in providing relevant documentation and access to the management team.

Our key findings from our assessment are summarized below:

- Since its merger in 1998 between LG&E and KU, the Company largely operates on an integrated basis across corporate, power production, customer and transmission and distribution operations having captured the synergies we typically find in utility combinations.¹
- Cost reduction opportunities resulting from the legal merger can be largely characterized as benefits from simplifying the legal entity structure from three entities to one and the resulting reduction of internal or third party administrative costs.
- The largest estimated one-time cost incurred relates to the system modifications required to financially report in a single entity environment. Additional costs relate to regulatory approvals and rate case filings to effect the proposed merger.
- Our review found that future financing and tax considerations from the legal merger would likely not result in material financial impacts, but entail the complexities and risks from implementing potentially new financial instruments or securing IRS private letter rulings.
- Our review of similar transactions suggests that, while not common, some utilities function without services companies where multi-jurisdictional utilities or significant non-regulated operations exist. Because of the different legal structures and business portfolios of these entities, they are not directly comparable to the Company.
- Finally, our review suggests in those cases that apply, customer rate harmonization has typically been performed over a multi-year period to mitigate the impacts of customer rate changes.

Based on our assessment across these dimensions, our estimated one-time incremental costs are \$22.1 million as compared to estimated net annual savings of \$2.3 million resulting from the legal merger. To contextualize this amount, these savings represent approximately 0.3% of Company

¹ PPL Corporation is in the process of reevaluating its decentralized holding company structure and moving towards a consolidated structure in connection with the acquisition of the Narragansett Electric Company. This initiative was in the early stages at the time of our review and the transaction with National Grid was not expected to close until the first quarter of 2022. The question of what services might be shared with companies' affiliates in other jurisdictions under this larger restructuring was not examined and is beyond the scope of inquiry here. Our examination focused on the conditions of LG&E and KU Energy, KU and LG&E as of December 1, 2021.

non-fuel electric O&M, whereas in traditional utility mergers, savings average approximately 7% of total combined O&M.

These annual savings would permanently reduce costs while the costs we have identified are one-time. Applying an inflation factor to these savings and reflecting a two-year period to realize these savings upon completion of the technology upgrade, cumulative savings would not exceed costs until year 10 of the transaction.

The remainder of this report provides in more detail our approach to the assessment and the conclusions reached.

2. Purpose of Report

Following a request for proposals through a competitive bid solicitation, LG&E and KU Services Company (“LKS” or “Client”) retained Todd J. Jirovec, a Principal at PricewaterhouseCoopers Advisory Services LLC (“PwC”) to provide an independent assessment of a potential legal merger of LG&E and KU. This report was prepared pursuant to Paragraph 7 of the Kentucky Public Service Commission Orders entered April 30, 2019 in Case Nos. 2018-00294 and 2018-00295 (“Order”).² Our services were performed, and this report was prepared solely in connection with this Order. PwC performed the services and developed the report for the use and benefit of its Client and disclaims any contractual or other responsibility to others based on their access to or use of this report and the information contained herein.

3. Experience, Approach and Methodology

Experience and Qualifications

This report was prepared under the direction of Todd J. Jirovec, Principal with PwC. Over the course of his consulting career, he has performed a variety of assignments that involved supporting management with the identification of merger benefits and related costs, due diligence, merger integration planning and regulatory assistance. He has also performed studies evaluating issues such as cost prudence/reasonableness, affiliate interest/code of conduct, and specific policy/issue support for a number of electric and/or gas utilities. This work has included governance development and organizational design for shared services entities, functional process and cost diagnostics, and cost control and financial planning reviews. He has also

² *In the Matter of Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates*, Case No. 2018-00295, Order p. 34 (April 30, 2019)(“as part of its annual report, LG&E shall file updates to its RTO membership study and potential legal merger study.”); *in the Matter of Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates*, Case No. 2018-00294, Order p. 31 (April 30, 2019)(“as part of its annual report KU shall file updates to its RTO membership study and potential legal merger study.”)

performed a variety of assignments for utilities related to corporate and business unit strategy, performance and operations improvement, and cost reduction.

As part of this assignment, he assembled a team of PwC subject matter specialists to assist in the evaluation of discrete topics related to the potential legal merger. A summary of PwC's functional experience and the resumes of the PwC subject matter specialists is included as **Exhibit 1**.

Assessment Approach

Our analysis initiated with an understanding of the enterprise organizational structure of the Company and how activities and services are established in this delivery model. We reviewed prior regulatory filings from the initial application for the merger between LG&E and KU and reviewed additional information from the Client for supporting information related to its operations, delivery model and topics germane to this assessment.

With these basic components in mind, we were able to undertake an objective evaluation of how LG&E and KU currently operate and assess the potential implications if the two entities were to legally merge.

Once this baseline was established, we then developed an evaluative framework with which to guide our overall assessment. This framework led to the identification of several specific questions that served as evaluative attributes to guide the overall analysis. These evaluative questions included the following:

- Has the Company captured synergies typically realized in utility mergers?
- Is it cost effective to maintain two separate utilities and a separate service company to serve the two utilities where the holding company no longer engages in unregulated activity and has no plans to do so in the future?
- Is it cost effective to transfer the employees and corporate functions of LKS, KU and LG&E to the new merged utility, allowing a single operation, albeit under separate marketing brands as desired for a time?
- What is the potential impact to the current and future financing structure under a combined utility?
- What tax considerations need to be addressed under a single utility?
- What are the implications to customer rates and future rate cases from a combined utility?

Methodology

As part of our assessment, we conducted over 25 interviews with management related to the nature of the activities performed by the Company, the organizational construct of the Company and the manner in which services were planned and executed, among other topics. These interviews were complemented by follow-up discussions to obtain additional clarity on the issues and topics related to the potential legal merger. We reviewed prior analyses and workpapers prepared by the Company relevant to this assessment. This additional information provided

insight into the operations and structure of the Company and enabled subsequent analysis related to potential incremental synergies and costs resulting from a legal merger. Throughout the assignment, Company management was cooperative in providing relevant documentation and access to the management team.

We reviewed management's prior internal studies of a potential legal merger in 2018, 2020 and 2021 as developed under the Order. In these prior analyses, several structural assumptions were made based on either third-party review or internal conclusions made to guide the analysis. We reviewed these assumptions and have adopted the following as part of our assessment:

- Rates for all customer in any particular rate class would be harmonized
- The existing brands would remain in place and be used in their current service territories for the merged company
- Existing First Mortgage Bonds would remain in place
- A Private Letter Ruling from the IRS would be required to address the differences in ITC treatment

These analyses taken together provided the basis for the conclusions reached regarding the cost effectiveness and other related questions of a potential legal merger of the Company.

The remainder of this report is structured as follows:

4. Our Understanding
5. Operational Assessment
6. Financial Assessment
7. First Mortgage Bond/Capital Structure Assessment
8. Tax Assessment
9. Accounting, Rates and Regulatory Assessment
10. Conclusion

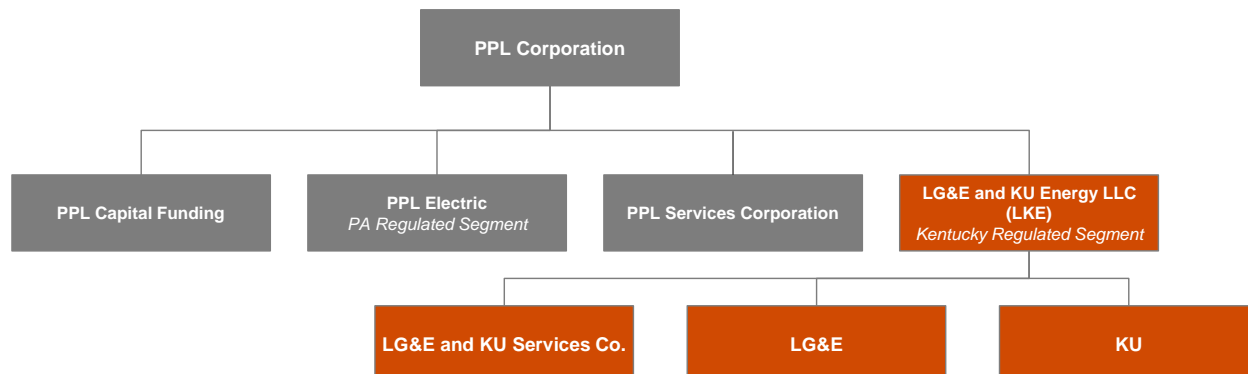
4. Our Understanding

LG&E/KU Overview

LG&E and KU are wholly owned subsidiaries of PPL Corporation and are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky, and Virginia. LG&E also engages in the storage, distribution and sale of natural gas in Kentucky. LG&E and KU have been under different ownership entities since their merger in 1998 as described in **Exhibit 2** included as part of this report.

LG&E and KU are owned by PPL Corporation through the LG&E and KU Energy LLC (LKE) holding company as depicted in **Figure 4-1** below.

Figure 4-1
PPL Corporate Entities³



LG&E provides electric services to 425,000 customers in the Louisville metropolitan area - covering 700 square miles of service area - and natural gas services to 332,000 customers in its electric service area and eight additional counties in Kentucky. KU serves approximately 536,000 electric customers in Kentucky and 28,000 electric customers in Virginia- covering 4,800 non-contiguous square miles. KU also has wholesale municipal contracts with two municipalities in Kentucky.

LG&E and KU control, own or have interest in approximately 7.5GW of generation capacity (summer capacity), from multiple plants, some of which are jointly owned by both utilities.

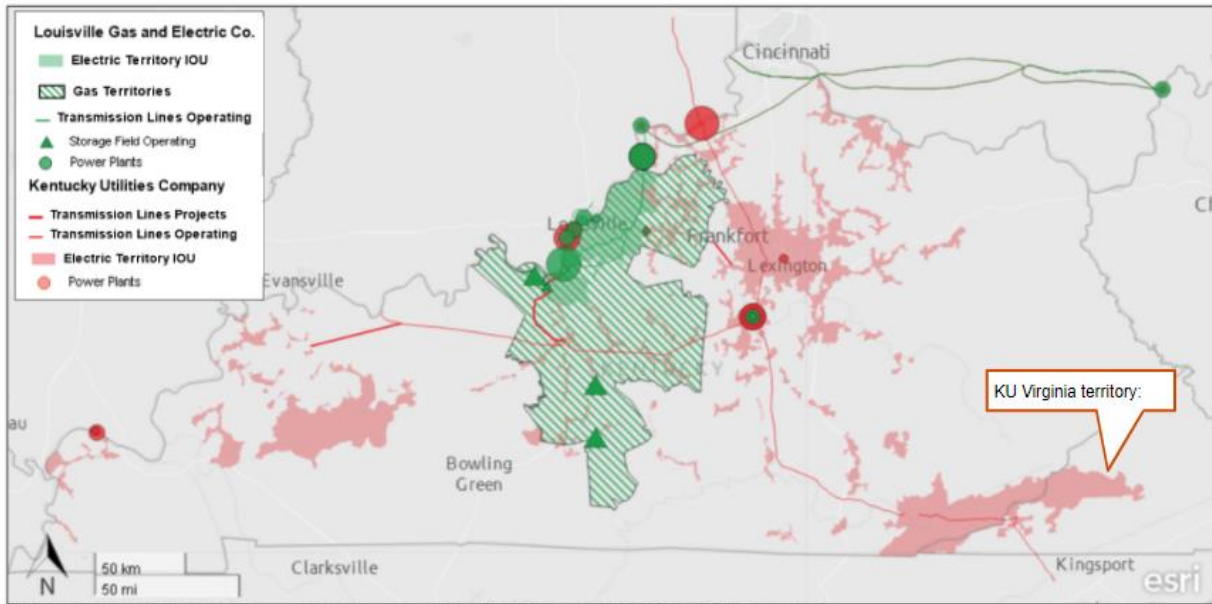
LG&E’s electric distribution facilities include 96 substations, 3,883 miles of overhead lines and 2,706 miles of underground lines. LG&E also has 4,398 miles of gas distribution mains, 351 miles of transmission pipelines, and 5 gas storage fields.

KU’s electric distribution facilities include 460 substations, 14,009 miles of overhead lines and 2,648 miles of underground lines.

Both utilities operate a shared transmission system of 4,725 miles of overhead lines. A summary of LG&E and KU Service Territories and Key Assets is depicted in **Figure 4-2** below.

³ This abbreviated structure does not reflect all PPL legal entities, nor does it reflect PPL’s proposed acquisition of Narragansett Electric which is anticipated to close in the first quarter of 2022

Figure 4-2
LG&E and KU Service Territories and Key Assets



Source: S&P Global Market Intelligence, 2021

LG&E and KU revenues are \$1.4B and \$1.7B, respectively, in 2020 with a residential customer base of 46% (LG&E) and 40% (KU.) LG&E and KU 2020 revenue breakdown is summarized in **Figure 4-3** below.

Figure 4-3
LG&E and KU Revenue by Customer Class
 \$ million, 2020

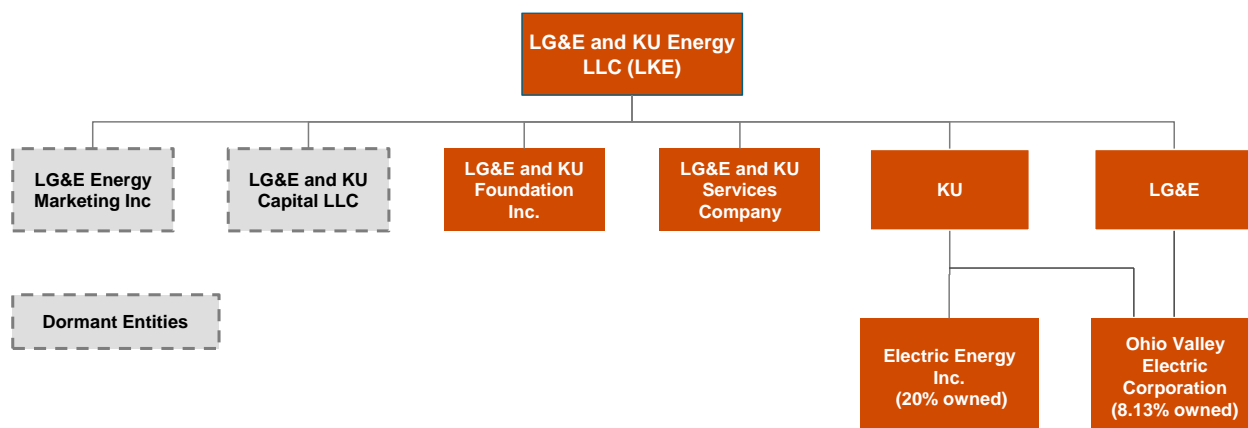
Customer Class	LG&E Revenue (\$ million)	KU Revenue (\$ million)
Residential	676	671
Commercial	444	427
Industrial	173	365
Other	114	147
Wholesale - Other	34	46
Wholesale - Municipal	0	20
Total Revenue	1,441	1,676

Source: PPL FY 2020 10-K

Current LG&E/KU Structure and Assumed Merged Structure

LG&E and KU are currently subsidiaries of a holding company LG&E and KU Energy LLC (LKE) as depicted in **Figure 4-4**.⁴

Figure 4-4
LG&E and KU Energy LLC Corporate Structure



The LG&E and KU Energy LLC (LKE) structure is comprised of six other entities:

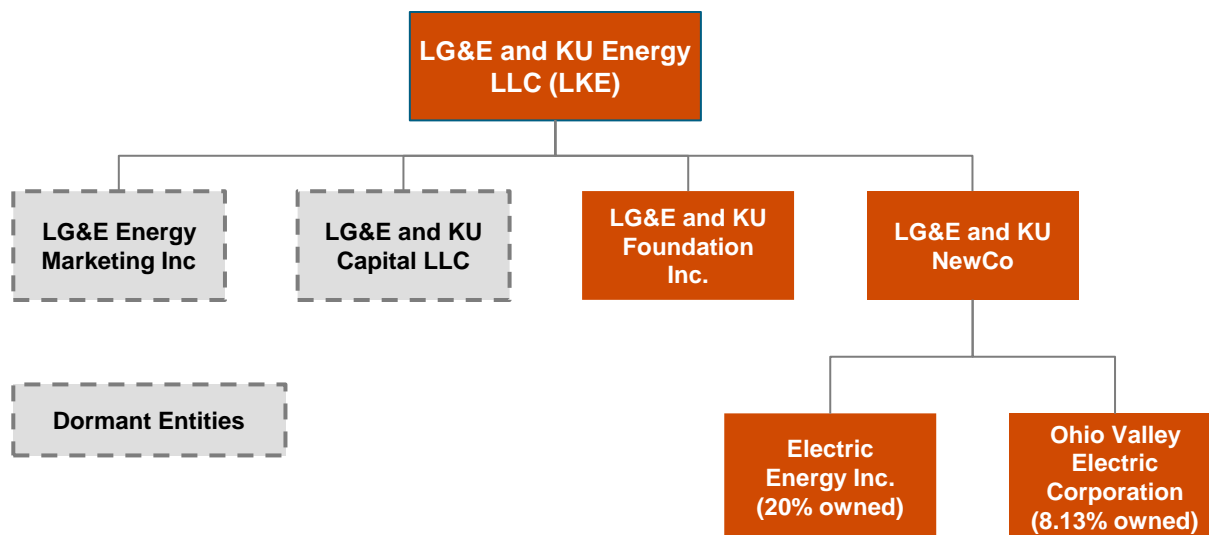
- LG&E and KU Services Company provides goods and administrative, technical, management, engineering, legal, accounting, and other services primarily to LG&E and KU
- LG&E and KU Foundation Inc., the philanthropic arm of LKE, focuses on Education, Diversity, Environmental, and Health and Human Services initiatives
- Ohio Valley Electric Corp, a power producer partially owned by LG&E and KU utilities. LG&E owns 5.6% and KU owns 2.5% of Ohio Valley Electric Corp.
- Electric Energy Inc. a power producer owned by KU (20% ownership)
- LG&E Energy Marketing is a dormant entity that was created to market and trade electric power and natural gas
- LG&E and KU Capital LLC. is a dormant holding company for all other non-utility activities for LKE

For purposes of the scope of this report, we have assumed that a potential legal merger of the Company would result in the collapsing of LG&E, KU and LKS into one entity under LKE as depicted in **Figure 4-5** below. The Company has indicated it does not intend to pursue non-regulated activities obviating one need for a services company to allocate corporate and administrative costs across regulated and non-regulated affiliates and, in the case of a legal merger, between LG&E and KU. In this structure, shared costs between electric and gas operations would be

⁴ PwC's review reflects the Company's organization as of December 1, 2021.

allocated using the Company’s cost allocation framework. This model is for evaluative purposes only and we do not assess the likelihood of federal and state regulatory approvals required to effect such a structure.

Figure 4-5
Assumed LG&E and KU Merged Corporate Structure

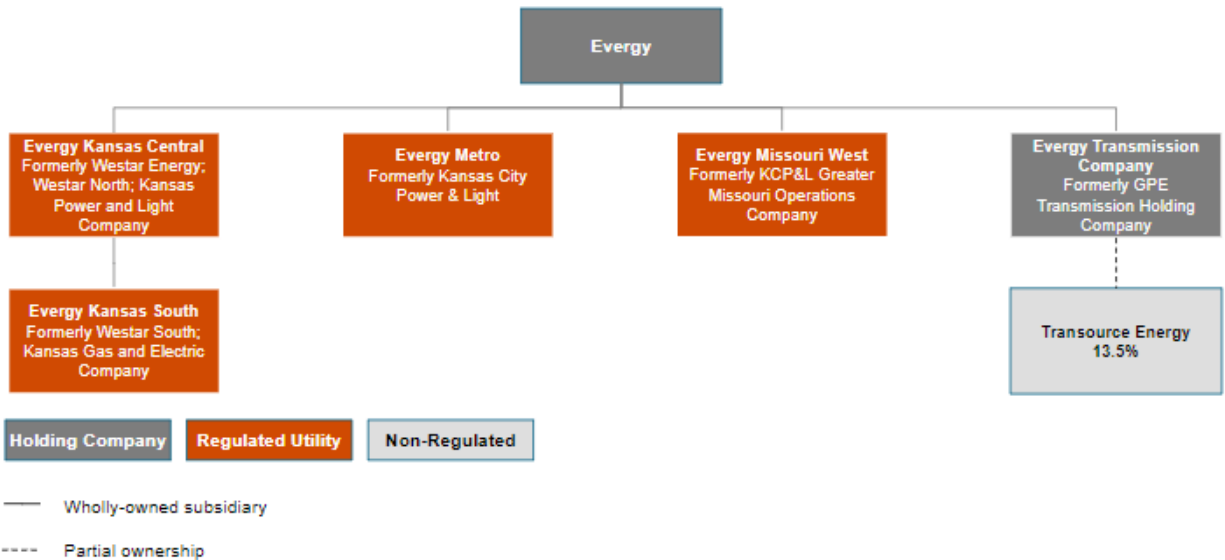


While most utilities in multiple jurisdictions or with non-regulated operations utilize a services company to centralize corporate and administrative functions and allocate costs to affiliates, we did find examples of other entities with multiple jurisdictions or non-regulated operations that do not utilize a services company.

Evergy is a utility which has grown through acquisitions over the past 30 years. In 1992 Evergy Kansas Central (“EKC”; formerly Westar North, formerly Kansas Power and Light), and Evergy Kansas South (“EKS”; formerly Westar South, formerly Kansas Gas and Electric Company), merged to form Westar (nee: Western Resources). EKC and EKS legal entities remained intact, with EKS becoming a wholly-owned subsidiary of EKC. EKC and EKS are financed with separate First Mortgage Bonds (“FMBs”) and continue to issue separate FMBs to finance the individual entities. EKC and EKS normalized customer rates over a 16-year period. See further discussion of this rate normalization in **Section 9** of this report.

In 2018 Westar merged with Kansas City Power & Light Company (“KCP&L”) to form Evergy. Evergy does not utilize a service company within its corporate structure, as per **Figure 4-6** below.

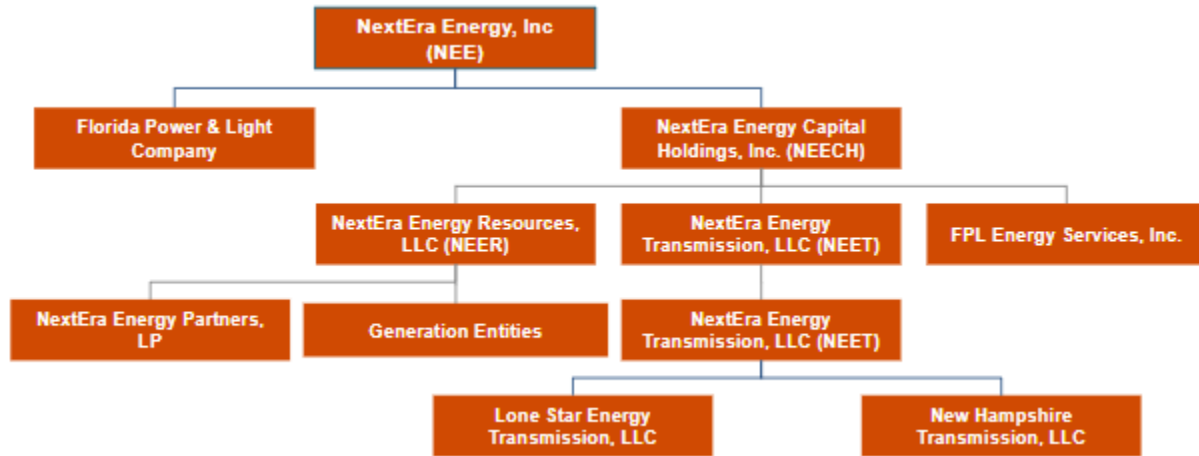
Figure 4-6
Evergy Corporate Structure



A second example is a recent merger completed by a subsidiary of NextEra Energy, Inc. (“NEE”), Florida Power & Light Company (“FPL”). In 2019, NEE acquired Gulf Power from Southern Company. Gulf Power was a wholly-owned subsidiary of its parent company. Effective January 1st, 2021, FPL and Gulf Power (“GP”) merged. The legal entities were combined with Gulf Power being subsumed by FPL. It should be noted that Gulf Power did not have any existing FMBs within this entity according to NEE’s latest 10-K and that future financing will be performed at the FPL level. A discussion of the customer rate treatment for this transaction is discussed in **Section 9** of this report. NEE also has significant non-regulated operations under the NEECH entities.

The NEE structure does not include a service company as depicted in **Figure 4-7** below.

Figure 4-7
NextEra Corporate Structure



We provide these two examples to illustrate precedence for exclusion of a service company from the corporate structure of utilities with multi-jurisdiction or non-regulated affiliates and differing treatments of legal entities which have been accepted by state utility regulators. Because of the different legal structures and business portfolios of these two entities, they are not directly comparable to the Company.

5. Operational Assessment

Based on our experience having supported utilities in the identification and realization of synergies from combination, we assessed the Company’s operating model against synergies areas typically realized in mergers. Synergies are broadly created from the avoidance of overlap and duplication between combining entities and economies of scale gained as a larger entity. **Figure 5-1** below summarizes typical synergy areas.

Figure 5-1
Synergy Areas Framework

	Synergy Impact Areas						Description
	A&G	O&M	CapEx	Fuel	Capital	Margin	
Corporate Functions	■						<ul style="list-style-type: none"> Elimination of duplication in support functions
Supply Chain		■	■				<ul style="list-style-type: none"> Vendor consolidation and economies of scale
Capital Spend			■				<ul style="list-style-type: none"> Avoidance of planned spend in selected areas
Utility Support		■					<ul style="list-style-type: none"> Rationalization and centralization of support functions
Utility Operations		■	■				<ul style="list-style-type: none"> Selected sharing of resources across the boundaries of the proximate service territory
Fossil Corporate Support		■					<ul style="list-style-type: none"> Rationalization and centralization of support functions
Fossil Operations		■	■				<ul style="list-style-type: none"> Joint dispatch and selected shared resources across the fleet
Fuels				■			<ul style="list-style-type: none"> Optimization of supply sourcing and transportation
Financing						■	<ul style="list-style-type: none"> Reduction in collateral requirements / commitment fees

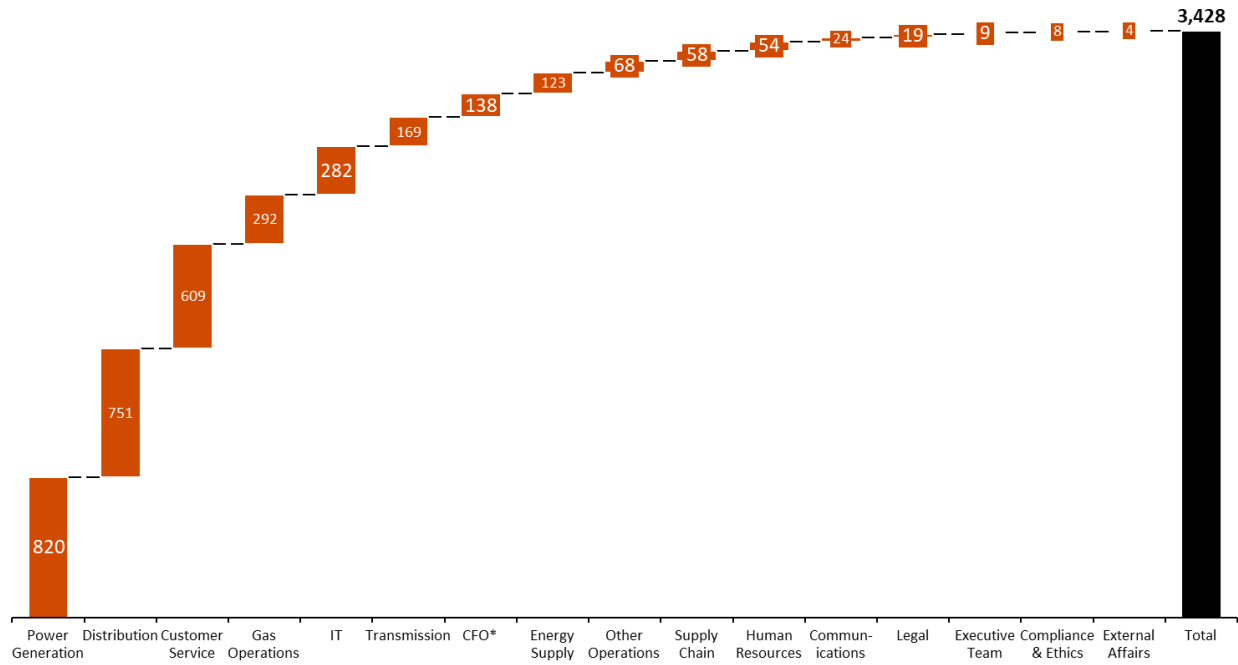
Through our review of organizational and cost data and interviews with management, we assessed whether the legal merger of the Company would enable incremental synergies in these typical categories or enable other efficiencies operating as one entity.

Organization structure

We began with a review of the Company’s organizational structure. We reviewed the Company organization structure using the latest human resource data to identify potential duplication of roles amongst LG&E, KU and LKS. As part of our interviews with the leadership team, we discussed each team’s role and responsibilities.

The Company is functionally organized into 15 primary areas, shown in **Figure 5-2**.

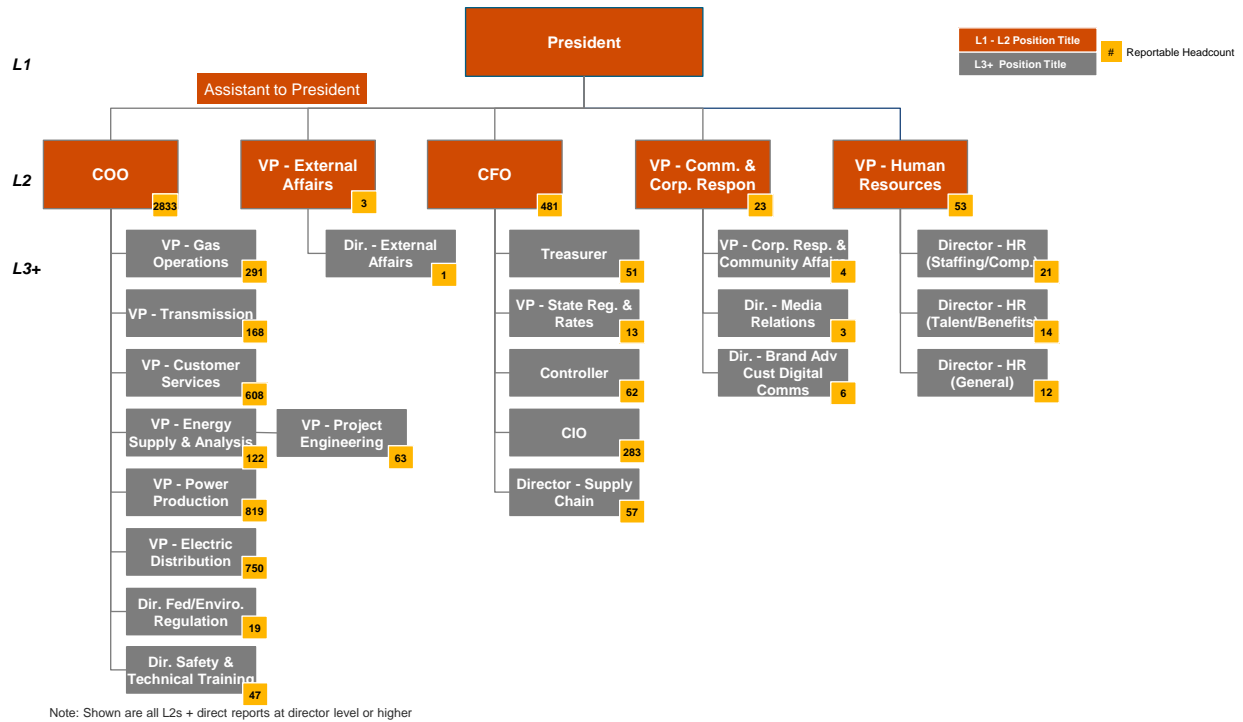
Figure 5-2
LG&E and KU Headcount by Function (as of December 1, 2021)



* CFO refers to the CFO organization excluding IT and Supply Chain.

The functional areas are defined by their purpose and activities and not by whether they support LG&E or KU activities. **Figure 5-3** below depicts the top level organizational structure of LG&E and KU as of December 1, 2021. Subsequent organizational charts presented are as of this same date.

Figure 5-3
LG&E and KU Management Organization Chart (as of December 1, 2021)⁵



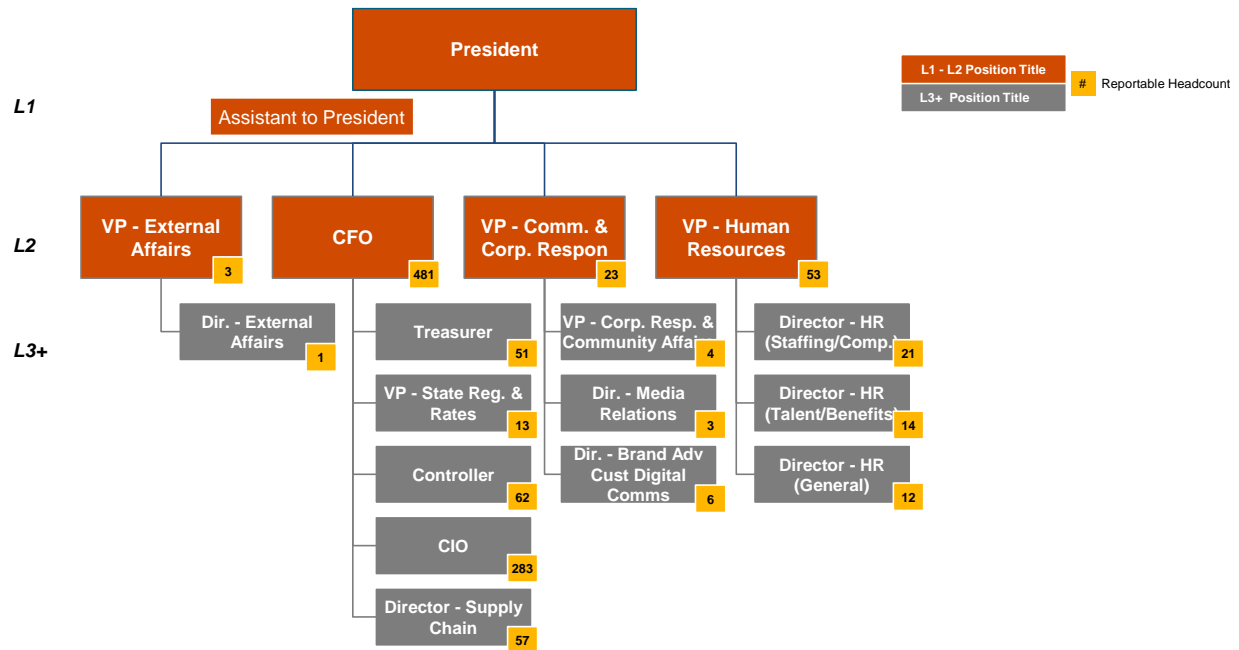
Corporate functions

Corporate functions at the Company include Finance, IT, Communications, External Affairs, HR, Compliance and Ethics and Legal functions. All of these functions support the entire company and are not segregated into LG&E and KU segments. For example, both LG&E and KU are supported by one Treasurer and one Chief Information Officer as shown in the **Figure 5-4** below.⁶

⁵ The position of General Counsel, Chief Compliance Officer and Corporate Secretary was eliminated in October 2021 when the officer serving in this position was named President of LG&E and KU Energy, LG&E and KU. The management previously reporting to Company's General Counsel began reporting to the General Counsel and the Chief Compliance Officer for PPL Corporation as part of a reorganization of PPL law departments and the consolidation initiative previously discussed.

⁶ Id.

**Figure 5-4
Corporate Organization Chart (as of December 1, 2021)**



Note: Shown are all L2s + direct reports at director level or higher

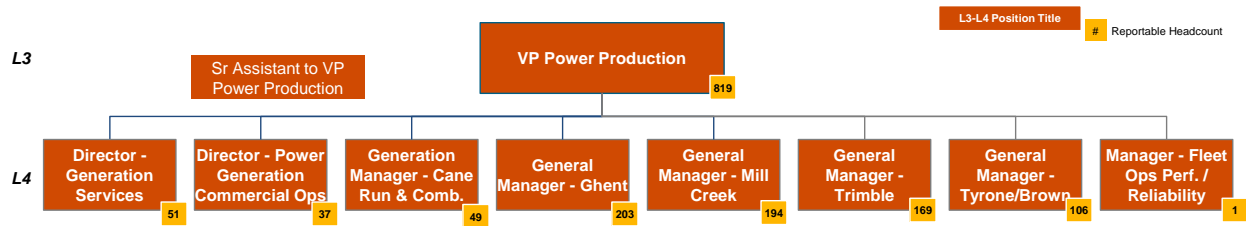
In addition to an analysis of the high level organizational design structure, we considered the organizational design of each operational group. Similar to the top level structure, we found that LG&E and KU are organized in a functional model as discussed further below.

Power Production

Power Production reports to the COO and is responsible for the operation of LG&E and KU power production facilities. Support functions such as generation services, commercial operations and fleet operations performance and reliability are centrally organized and support the fleet of power production facilities under common processes and practices garnering the benefits of economies of scale.

Individual plants either owned by LG&E, KU or jointly owned are led by a general manager of each plant with dedicated operators at each plant. This is a common mix of centralized functions and dedicated roles to manage a generation fleet. We did not observe any opportunities to eliminate duplicate positions resulting from a legal merger of the Company.

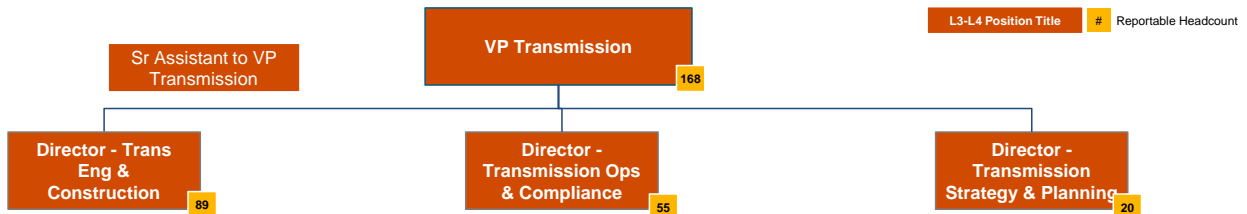
**Figure 5-5
Power Production Organization**



Transmission

The Transmission function is organized centrally with engineering and construction, operations and compliance and strategy and planning managed across the LG&E and KU system. This construct benefits both utilities as all aspects from transmission strategy to execution are centrally organized. We did not observe any modification resulting from a legal merger that would enable additional synergies or efficiencies. The top level Transmission organization structure is depicted in **Figure 5-6** below.

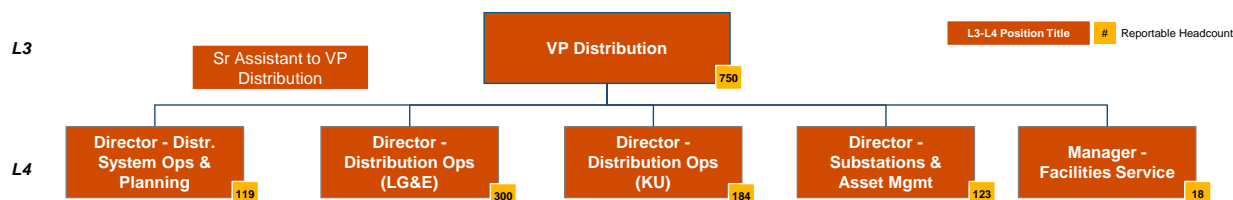
**Figure 5-6
Transmission Organization**



Distribution

The Distribution organization has centralized functions such as system operations and planning, substations and asset management, facilities services. These functions are commonly centralized across a distribution function to enable single system planning, asset management, and facility operations delivery model. Other centralized functions include vegetation management and engineering. The Company does maintain two Distribution Directors - one for LG&E and one for KU - primarily to reflect the geographic footprints of the two service territories. This model is similar to other utilities that organize regionally where vast geographic service territories exist. In these cases, utilities will often establish regional organizations to manage work volumes in smaller territorial footprints. Therefore, it is our view that a legal merger would not enable incremental consolidation opportunities as the service territories are not changing as a result of the merger. A high level summary of the Distribution organization is summarized in **Figure 5-7**.

Figure 5-7
Electric Distribution Organization



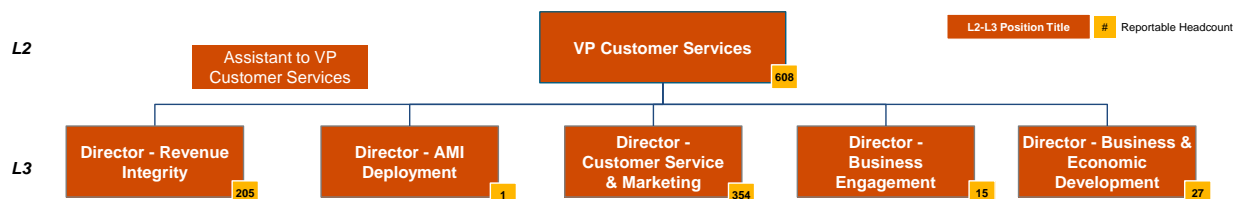
Work planning occurs centrally and is directed to the most suitable local resources. Union labor is limited by contract and can generally only occur for the service territories of that respective company. Due to geographic diversity of the two utilities' service territory, work would likely get dispatched in a similar manner as a combined utility as it is currently. In emergency situations, union labor can support either company.

As a result of our review, we do not foresee any incremental synergies or costs in Distribution labor as a result of the potential merger.

Customer Services

The Customer Services organization includes Revenue Integrity - responsible for billing, meter reading and other billing related support functions, Customer Service and Marketing, which operates the call centers and the business offices. These activities are managed on an integrated basis across the two utilities. The call center is jointly operated with agents trained to answer questions from both LG&E and KU customers. Business offices are administratively organized centrally but operate in their respective service territories for the benefit of that specific company. Similar to the discussion of distribution field operations, the geographic diversity requires these facilities to be maintained irrespective of the legal entity construct. AMI and Business Engagement and Economic Development are also centrally managed across the two utilities. We did not observe any incremental organizational synergies resulting from the legal merger.

Figure 5-8
Customers Services Organization



Bargaining Agreements

The Company has three union labor bargaining units. LG&E has a contract with the IBEW (International Brotherhood of Electrical Workers), while KU has a separate contract with IBEW as well as a chapter of the United Steelworkers. Contracts between the different unions are aligned but negotiated separately. Pay and benefits are generally consistent between the unions with some minor exceptions. For example, the number of sick days varies slightly between the union contracts. A legal merger would likely prompt a union contract renegotiation and the possibility of combining the IBEW contracts; however, this is not required as a result of a legal merger. There would be potential for labor and benefit costs to increase as contracts are aligned to the most favorable terms existing in each contract; however, we have not assumed a cost impact for purposes of this analysis.

Corporate Programs

Merging utilities have the opportunity to consolidate corporate and administrative programs to leverage purchasing power and eliminate redundant spend. In the following pages, we examine any incremental savings to be realized from such a combination.

A&G Overhead

Administrative and general overhead costs are the estimated non-payroll and benefits-related variable costs that are incurred by corporate staff. These costs include office supplies, phone plans, travel and other miscellaneous expenses. Based on our experience, variable A&G costs per employee range from \$3,000 to \$6,000. As will be described later in this report, 11 FTEs are estimated to be reduced as a result of the legal merger (6 accountants, 1 manager, 1 regulatory analyst, and 3 LKS analysts). As a result, we estimate savings in variable A&G overhead of approximately \$50,000 based on a midpoint estimate of \$4,500 of A&G overhead variable cost per employee.

Advertising/Marketing

As indicated earlier, one structural assumption from the legal merger would be that the individual company brands would be maintained for LG&E and KU. Both LG&E and KU use the same advertising agency and run corporate campaigns on a company wide basis. As such, opportunities to consolidate advertising and marketing spend or consolidate ad agencies and media placement were not identified.

Based on our discussions with management, Kentucky regulators require utilities to publish their business details (i.e., address and contact information) in physical phone books. The Company has previously estimated that reducing the two current phone book listings to a single entry would yield approximately \$11,000. This figure is corroborated by the fact that there are approximately 25% of overlapping counties which would see a 50% reduction in spend or approximately 12.5% savings off the approximately \$95,000 phone book listing budget.

Additionally, since we are assuming the existing LG&E and KU brands remain in place, we are not expecting any incremental costs associated with rebranding a new entity.

We anticipate no impact on other marketing activities and their related costs resulting from the legal merger.

Association Dues

Industry association dues savings would come from consolidating duplicative dues paid by each utility. We did not find duplicative membership dues paid by both utilities that would be reduced in the event of a legal merger.

Benefits Administration

Incremental savings from the administration of the Company benefits plans would come from more favorable terms with vendors by combining legacy plans into a larger one or from lower complexity in administering fewer plans. The Company benefits are administered by single third party providers on behalf of the utilities. Medical benefits are consolidated under one single plan administered by one provider. LG&E and KU have an umbrella agreement with PPL for their pension plan which is administered by one provider. LG&E and KU appear to have already captured the benefits from the consolidation of benefit plans and no further savings were estimated resulting from the legal merger of both entities.

Customer Billing

LG&E and KU service territories are broadly distinct with LG&E providing customers with gas and electric service and KU providing electric service only. The exception to this distinction is the area in which LG&E's gas service territory overlaps with KU's electric service territory. Customers in this territory may be separate customers of LG&E for gas and KU for electricity. A legal merger would make these individuals solely customers of the combined entity. This would allow for a consolidation of duplicate invoices sent to these customers. Approximately 8,900 customers are covered by both LG&E Gas and KU Electric service out of which we estimate that 60% elect to receive paper bills. The consolidation of invoices would yield approximately \$30,000 in annual savings given an estimated \$6.30 annual cost per customer for paper bills. The annual cost of servicing customers included estimates for the cost of postage, material and processing (including printing). Information on the number of overlapping customers was provided by LG&E and KU. We do not anticipate other synergies or costs in customer billing.

Directors Fees

The external Board of Directors is conducted at PPL Corporation and, therefore, the potential legal merger would not impact this Board. LG&E and KU do maintain internal Boards of Directors with identical management team members. These are not dedicated positions rather partial roles certain officers of LG&E and KU perform to execute the fiduciary responsibilities of two legal entities. While the legal merger would simplify some of these administrative matters and documentation requirements between LG&E and KU, we would not expect there to be an officer position reduced as a result of the legal merger. As a result, we do not assume any savings from the consolidation of the internal LG&E and KU Boards.

Facilities

LG&E and KU maintain corporate headquarters in Louisville and Lexington, respectively. As part of a merger commitment made during the 2010 PPL merger (KSPC Case No. 2010-00204), the companies are required to keep both in place until at least 2025. Currently excess space at these facilities is optimized through leasing or subleasing to third parties which we assume would continue to be the case subsequent to the expiration of this commitment. A further consideration is the importance of a local presence in these locations and the ability to attract and retain talent in these respective locations. We did not assume any incremental synergies from the legal merger from corporate facility consolidation.

Insurance

Insurance procured solely for the Kentucky regulated segment is negotiated at the LKE level which negates any economy of scale benefits the combined company could be expected to realize post-legal merger.⁷ We confirmed with management that property, director and officer, excess liability and other coverages are procured at the PPL level on a combined basis.

IT Systems

The Company operates in a common application environment across the three legacy entities with modifications within the applications to accommodate the existing legal entities. Therefore, we do not foresee any incremental benefits from application consolidation or rationalization of third party service providers. An assessment of the implications of reconfigurations of the IT environment to operate as one legal entity is considered in **Section 6** while contracts with IT service providers are addressed in the Supply Chain discussion that follows.

Professional Services

The Company has previously estimated that the legal merger would reduce actuarial fees by \$20,000. This results from a reduction of actuarial work for the purposes of accounting valuations and forecasts for the nonunion pension plan and postretirement benefits plan. Currently, actuaries prepare their estimates based on intra-company cost allocations. The legal merger will reduce the complexity of cost allocations and reduce actuarial workload. We have reviewed correspondence from the actuary supporting that estimate. Additional savings in professional services expenditures (accounting and legal expenses) resulting from the legal merger are outlined in **Section 9** of this report.

Research & Development

We found no incremental benefits from combining Research and Development as R&D projects are currently run on a consolidated basis.

⁷ LG&E procures one policy related to the gas operations.

Shareholder Services

Shareholder services are conducted at the PPL level and not the LG&E and KU level. We therefore do not anticipate any incremental savings in this category from merging the legal entities.

Supply chain

We reviewed the Company's third party spend to assess whether the Company is able to capture any incremental benefits as a larger legal entity. We also assessed the impact of a legal merger of the Company on current contracts. We conducted this analysis by interviewing relevant Company personnel, analyzing the Company's 2020 accounts payable and contracting structure as well as reviewing key contracts.

As part of our assessment, we considered the following questions:

- Will existing contracts be subject to commercial renegotiations?
- Will there be any incremental savings as a function of the merger?
- How much would it cost to effect the merger from a contractual standpoint?
- What type of one-time fees or vendor costs from a run-rate point of view will the vendors charge?

We assessed the Company's 2020 accounts payable data, identifying approximately 2,300 vendors with more than \$5,000 of spend (both bundled across multiple entities and dedicated to one entity). We reviewed the contract form templates as well as the contracts for the Top 10 IT and Top 10 Non-IT vendors to identify any unfavorable triggers in the contractual language and assessed the impact of the potential merger across the entities.

We analyzed the Company's three standard form templates (Administrative Services Agreement - "ASA", General Commercial Agreement - "GCA", and Engineering Agreement - "EA") for any Assignment and Change of Control language. The ASA contains favorable affiliate assignment language as well as favorable Change of Control language. Both the GCA and EA are silent on assignment rights and Change of Control language, which is generally considered favorable for US reorganizations.

For the Top 10 IT vendors, seven vendors are contracted solely with LKS and three vendors have one master agreement with all three entities contracted. All vendors have either favorable affiliate assignment language and/or Change of Control language or are silent on both.

For the Top 10 Non-IT vendors, two vendors are contracted solely with LKS, one vendor is contracted solely with KU and seven vendors have one master agreement that is bundled across multiple entities. All vendors have either favorable affiliate assignment language and/or Change of Control language or are silent on both.

There is limited reason to believe that there will be any cost implications as a function of the merger, as it pertains to the contracts themselves, since none of the three entities are presumed to survive the transaction. There will be limited run-rate cost impacts to the ongoing business, given the operational and contractual precedent that exists with these vendors. We do not

anticipate any additional synergies from the legal merger since spend is already managed at the corporate level with vendors contracting with LG&E and KU as a combined entity, either under one contract for multiple entities or under multiple contracts referencing both entities.

There may be one-time third-party costs incurred associated with merger activity including, but not limited to, one-time fees payable for internal assignments, updates to contracting templates, preparation and customization of vendor notification templates, issuance of vendor notifications, and triaging and answering vendor questions.

The estimated one-time costs for the efforts outlined above range from \$500,000 - \$550,000 (we've assumed \$500,000) for third party support (contractors and paralegals) and is based on a comparative benchmark against similar reorganizations/transactions performed by other utilities. Our comparative benchmarks reflect that the majority of such one-time costs were found in IT and IP vendors (0.5% - 0.75% of the addressable spend base), whereas non-IT vendors historically did not incur any transaction-related costs.

Plant and Field Operations

We reviewed the Company's operations to assess the extent to which assets and resources are shared across the two utilities - e.g., sharing of resources across the boundaries of the proximate service territory or joint dispatch of selected resources across the fleet - and whether the consolidation of two distinct legal entities would enable further operational efficiencies.

Power Production

LG&E and KU operate approximately 7.5GW of capacity from coal, natural gas, hydroelectric and solar plants, some of which are co-owned by the two entities. Plants built since the initial merger in 1998 are jointly owned as shown in **Figure 5-9** below.

**Figure 5-9
LG&E and KU Power Generating Assets and Ownership Structure**

Fuel	Plant	Total MW Capacity Summer	LGE %	KU %
Coal	Ghent - Units 1-4	1,919	-	100%
	Mill Creek Units 1-4	1,465	100%	-
	E. W. Brown - Unit 3	412	-	100%
	Trimble County - Unit 1	370	75%	-
	Trimble County - Unit 2	549	14%	61%
Natural Gas/Oil	E.W. Brown Unit 5	130	53%	47%
	E.W. Brown Units 6-7	292	38%	62%
	E.W. Brown - Units 8-11	484	-	100%
	Trimble County Units 5-6	318	29%	71%
	Trimble County Units 7-10	636	37%	63%
	Paddy's Run Units 11-12	35	100%	-
	Paddy's Run Unit 13	147	53%	47%
	Haefling - Units 1-2	24	-	100%
	Zorn Unit	14	100%	-
	Cane Run Unit 7	662	22%	78%
Hydro	Ohio Falls - Units 1-8	64	100%	-
	Dix Dam - Units 1-3	32	-	100%
Solar	E.W. Brown Solar	8	39%	61%
Total		7,561		

Note: Paddy's Run Unit 11 subsequently retired on 3/31/2021; Zorn retired 11/30/2021
Source: PPL FY 2020 10-K

LG&E and KU signed a Power Supply System Agreement in 1998 ("PSSA"), filed with FERC, which provides the contractual basis for the coordinated planning, construction, operation and maintenance of the electric generation facilities of the Companies. The integrated electric system is operated in accordance with economic dispatch to meet the utilities load responsibilities and off-system obligations in an economically efficient way. One utility will sell its power to its sister utility when it has excess generation capacity after serving its own load and when its generation costs are lower than that of the other utility. The Power Supply Control Center is responsible for the scheduling of power according to the PSSA.

LG&E and KU consolidated their fuel purchasing for their power production facilities and appear to have captured benefits from economies of scale in this area. For example, **Figure 5-10** shows coal purchased by LG&E and KU under long term contracts. Both utilities purchase their fuel under the same contracts and at the same prices.

Figure 5-10
LG&E and KU Coal Purchases (unloaded) Under Long Term Contract

Contract/ PO	Supplier	LG&E Quantity Received (Tons)	KU Quantity Received (Tons)	Price
J16006B	ACNR Coal Sales, Inc.	0	90,615	\$40.39-IL, \$39.39-WV
J16017C	ACNR Coal Sales, Inc.	53,860	0	\$41.60
J17004B	ACNR Coal Sales, Inc.	78,285	80,006	\$40.90-IL, \$39.90-WV
J18002C	ACNR Coal Sales, Inc.	117,053	32,072	\$44.98-B, \$44.98-R
J14001B	Alliance Coal LLC	54,864	130,313	\$39.45
J18003	Alliance Coal LLC	301,909	183,452	\$42.42
J18009	Alliance Coal LLC	426,521	735,045	\$38.93-KY, \$41.15-WV
J19001	Alliance Coal LLC	422,267	0	\$41.00-Dotiki, \$42.10-Warrior
J20002	Arch Coal Sales Company Inc.	0	334,557	\$12.44
J20001	Contura Coal Sales LLC	0	36,903	\$40.60
J18001	Hartshorne Mining Group LLC	98,225	67,684	\$40.50
J18005	Knight Hawk Coal, LLC	80,856	155,372	\$36.94
J19003	Peabody COALSALES LLC	0	257,663	\$41.10-B, \$38.80-R
J16006	The American Coal Company	0	207,926	\$40.39-IL, \$39.39-WV
J17004	The American Coal Company	417,241	251,361	\$40.90-IL
J19004	Western Kentucky Minerals, Inc	17,794	4,822	\$38.50
J20006	Western Kentucky Minerals, Inc	76,728	65,579	\$37.41
J16017B	Western Ky Consolidated Resources LLC	117,153	0	\$41.60
J18002B	Western Ky Consolidated Resources LLC	311,626	93,690	\$42.32
J19002	White Stallion Energy LLC	109,865	61,833	\$41.13

Source: KPSC Docket #2021-00055, 2021-00056 - Response to Commission Staff's First Request for Information

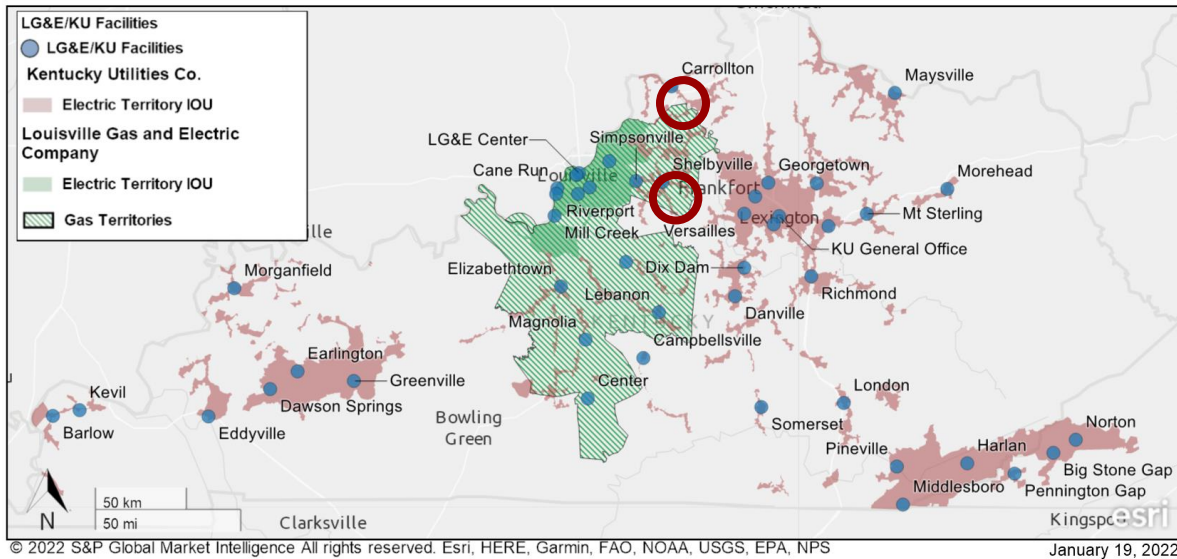
The review of the power production operations reveals that LG&E and KU have already captured the savings from consolidating their operations. We did not find any other incremental savings that would be realized from merging the two legal entities.

Transmission & Distribution

LG&E and KU operate their transmission systems as a single, integrated system as per the Transmission Coordination Agreement (“TCA”). This agreement provides the contractual basis for the planning and operation of the transmission system. LG&E and KU plan and develop their transmission facilities on a combined basis, considering that the utilities individual systems constitute an integrated transmission system, with the objective to maximize economy, efficiency and reliability of the transmission system as a whole. The transmission system is operated as a single system including the use of third parties to perform certain tariff administration functions for the combined system.

As part of our review, we evaluated the locations of the distribution operations centers to determine if the legal merger would enable potential incremental benefits. LG&E and KU have one common distribution control center that they have operated since 2019 and 11 primary operations centers that utilities operate separately shown in the **Figure 5-11** below. There is also one transmission control center.

Figure 5-11
LG&E and KU Operations Centers and other Key Facilities



Sources: S&P Global Market Intelligence, LG&E and KU Distribution team

As illustrated in **Figure 5-11** above, there are two KU operations centers near LG&E electric service territory borders - Shelbyville and Carrollton which are approximately 30-45 minutes from the closest LG&E operational center in Louisville. The Shelbyville location supports Frankfort and the I-65 corridor, the area between Louisville, Lexington and Shelbyville, which is experiencing strong population growth as compared to the rest of the state. The Carrollton location supports some of the KU’s largest customers. There is strong business rationale to maintain these operating centers and we do not assume the legal merger would enable consolidation of any operations centers.

Customer Operations

A common benefit from a merger is the elimination of duplicate customer operations such as call centers and physical business offices where territories overlap. For call centers, merging operations may result in greater efficiency allowing equivalent service levels using fewer resources. We considered LG&E and KU customer operations and analyzed the possibility of greater efficiency in a merged entity.

Figure 5-12
LG&E and KU Call Center Locations

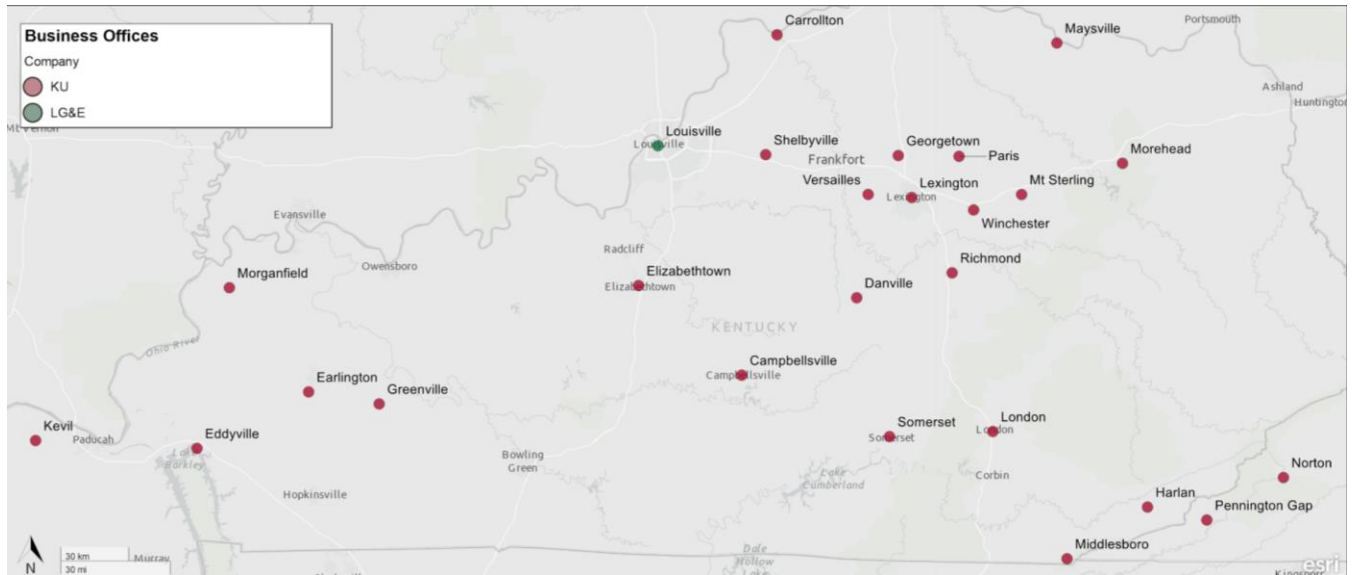


Sources: S&P Global Market Intelligence, LG&E and KU

LG&E and KU have four physical call centers located in Louisville, Lexington, Morganfield, and Pineville (see **Figure 5-12**). The four are virtually linked together and call loads are shared amongst them and each center is sized appropriately. Agents at all four call centers can serve customers from either LG&E or KU. All 180 call center agents are part of the service company and call volumes are anticipated to remain subsequent to the legal merger and not be impacted. The implications of a legal merger without changing the LG&E and KU brands would be minimal.

Customer service centers, known as businesses offices, provide an in person customer support option for customers. They allow customers to pay bills via drive-through, drop-box, or in person payments. LG&E has a single business office located in downtown Louisville. KU has 23 business offices in Kentucky as well as two business offices in Virginia under their Old Dominion Power Company (“ODP”) brand. These locations are geographically separated and there is no overlap of LG&E and KU business offices (see **Figure 5-13**). The business offices can also service customers from either utility. We do not expect any incremental benefits to be realized through customer service center consolidation.

Figure 5-13
LG&E and KU Business Office Locations



Sources: S&P Global Market Intelligence, LG&E and KU

Operational Assessment Summary

Based on our review of the Company including its organizational structure, corporate programs, and plant and field operations, we did not find material incremental synergies that would result from the legal merger between LG&E and KU. The Company has largely captured the typical benefits from eliminating overlapping duplication positions and costs and achieved economies of scale through deployment of its operating model and procurement practices.

We did find incremental cost reduction and efficiency opportunities that could be pursued resulting from the legal merger as indicated throughout this section and summarized in **Figures 5-14 and 5-15** below. Incremental costs resulting from the legal merger relate to one-time costs associated with developing and assigning the existing contracts under the new legal entity.

Figure 5-14
Operational Incremental Annual Savings from Legal Merger

Area	Name	One-Time/Ongoing	Savings
A&G Overhead	Reduction of variable A&G overhead costs	Ongoing	\$50,000
Advertising and Marketing	Consolidation of duplicate phone book listing	Ongoing	\$10,000
Customer Service	Consolidation of duplicate Invoices	Ongoing	\$30,000
Professional Services	Reduction in Third party actuarial work	Ongoing	\$20,000
Total Ongoing Savings			\$ 110,000

Figure 5-15
Operational Incremental Costs from Legal Merger

Area	Name	One-Time/Ongoing	Cost
Supply Chain	Contract reopening costs	One-Time	\$500,000
Total One-time Costs			\$500,000

6. Financial Assessment

Financial Reporting Requirements

As part of the potential legal merger, the new company would file with the Securities Exchange Commission (“SEC”) as a new registrant. As such, the new company would file the necessary reports such as 10-Q or 10-K instead of the existing reporting structure where LG&E and KU file separately based on their current registration profile with the SEC. The financial impact resulting from the reduced reporting requirements are addressed in **Section 9** Regulatory Assessment. This section of the report addresses the modifications necessary to implement the new reporting requirements.

In order to achieve the new financial reporting requirements, we applied our experience having supported similar utilities in these consolidation efforts and the information technology requirements to effect such a change both from a process and technology perspective.

Based on our review of the current IT system diagram, there will be a one-time cost to set up the new company as part of the legal merger. These type programs include the design, testing, development and production release. In this instance, we have assumed an approximate 9-month period to complete the program.

The requirement to establish a new company impacts the Company’s Oracle Enterprise Business Suite (Oracle eBS), PowerPlan, and all systems that send or receive data from these two core systems. This decision was validated in discussion with management and other key estimating assumptions were reviewed including IT system diagrams and associated contracts. As part of this assessment, we assumed the following:

- Existing business processes and chart of accounts will remain
- Key decisions focused on supporting setups required for IT systems will be determined during the Design phase
- No upgrades will occur though there may be required downtime based on system needs
- There is added complexity to the timeline and effort to complete this activity due to on-going projects currently underway

IT Systems Considerations

Oracle eBS and PowerPlan Considerations

To evaluate Oracle eBS, the team confirmed the modules in scope are Accounts Payable (AP), Purchase Order (PO), Project Costing, Accounts Receivable (AR), General Ledger (GL), Inventory, Tax, and iSupplier. To assess the cost for Oracle eBS, the team used the estimating assumptions provided as part of the evaluation:

- New company would be setup in both Oracle eBS and PowerPlan based on the post-merger agreement
- Data Conversion would need to occur in order to migrate cost from old company values to the new company
- Integrations impacted by the change in company value were provided by the Client based on their own independent assessment
- Design would not be revisited for all finance, accounting, and treasury business process
- Testing would be the main focus to ensure new company setup is in place and regression testing for all impacted processes and systems
- Change management, controls, and security would remain the same with design focused on the new company based on merger agreement

Key diagrams that were used to support the assessment and informed the assumptions above are included as **Exhibits 3 and 4**.

To evaluate the considerations in setting up a new company, we developed an activity breakdown of the estimate to update Oracle eBS. As part of our estimating approach, we typically assume a complexity factor into the overall quantitative evaluation based on a few key decisions. For the purposes of this assessment, we considered two years of history with full detail will be converted for each module within Oracle eBS. The structure used would be a new legal entity with business units set up to reflect the legal merger reporting requirements. The setup of each module within Oracle eBS is based on a standard new company setup based on our experience on similar projects.

To evaluate the PowerPlan impacts, the team interviewed the Company to determine the key areas of complexity that would impact the effort. Based on the current design, PowerPlan is used for collecting cost, budgeting, asset accounting, and tax accounting (repairs, income tax, and property). The key value for the PowerPlan application is defined as “Company” so changing the “Company” setup would impact each component of the PowerPlan setup.

The most complex area that would be impacted within PowerPlan is the Projects module which includes tasks that are created as part of Work Management IT systems. The Company provided details on the volume of tasks impacted by changing the company that would provide complexity in the migration of old data to new data (conversion process). The interfaces that send data to and from other IT systems would not be as heavily impacted because of the scalability of the current setups. The reports, queries, security, and alerts would need to be evaluated to determine if the new company would need to be added or if the current setup is scalable.

There would need to be extensive testing to ensure that current processes are not impacted after adding a new company. Our team used comparable projects from recent utilities that had a similar effort to estimate a reasonable range. The cost to complete would need to be further validated after a deeper assessment into the impacted areas and a consultation with the Implementation Partner.

This activity-based analysis yields an approximately \$4.5-\$5 million range (we assume \$4.5 million) for the technical update. The PowerPlan estimate based on previous quoted technical efforts is within the \$4.5-\$5 million range (we assume \$4.5 million). In total, our team's estimate of the combined cost of Oracle eBS and PowerPlan configuration is \$9-\$10 million (we assume \$9 million).

Customer IT Considerations

Currently, both LG&E and KU are on the same SAP Customer system. In conducting an independent evaluation of the estimate, the Company confirmed the following as the technical assumptions in which the effort will occur post legal merger:

- No new company setup would occur within SAP instead the existing companies would remain post-merger
- The master data and branding will not be converted so the number would remain the same for the following fields: Contract Account, Business Partners, Premise, Installation, etc. in SAP
- There would be estimated tariff harmonization
- The cross-company control would be removed thus allowing customer balance transfer to occur within one company

Given these assumptions, the customer application activities post-merger will be a very minimal technical update to minimize disruption to the impacted user groups. To assess the SAP cost, an activity based estimate was conducted. The estimate includes the components the Company wants to update within Customer solution as well as the interactions between SAP and Oracle eBS that would need to be updated to reflect the change in setup in Oracle eBS. The PwC team assumed that the processes that occur within SAP would be largely untouched but the impact of a change to Oracle eBS requires a regression test of the system to ensure customer processes are intact. There are no synergies within the customer setup at this time since the companies would still remain as separate entities from a technical standpoint. The scope and complexity was updated per the assumptions documented above from the Client. The cost estimate for this technical update is approximately \$ 1.3 million - \$1.6 million (we assume \$1.3 million) using a rate per hour of \$200 with a 9-month timeline to complete similar to the Oracle eBS provided above.

Other IT Systems Considerations (not including Oracle eBS, Customer, and PowerPlan)

To assess the cost for the systems outside of Oracle eBS, SAP (Customer), and PowerPlan, we reviewed the previous analyses conducted by the Company. In addition, we interviewed the Company technology team in order to further validate the impacted areas and complexity based on the system setups. We observed the following from these discussions:

- Company value is manually setup in the applications and the data flow between other systems - this will increase the complexity of certain applications such as Reporting, Fleet, and Work Management

- Technical updates are required for each application in the diagram provided based on how data flows between systems
- On-going changes are occurring for subset of the systems therefore the effort to update could change based on the timing of the approval for the legal merger

Based on the above observations, the team determined the complexity and impact to the impacted systems provided. We also compared this analysis to other projects where we conducted a similar exercise to confirm reasonableness for the effort. The complexity in the technical effort would be based on how the Company has set up the architecture to enable such updates to occur for maintenance purposes. Our estimate for all other legacy applications is approximately \$5.6-\$5.9 million (we assume \$5.6 million) based on known scope. The rate per hour was assumed to be \$200 with a 7 to 8 month timeline to complete similar to the Oracle eBS provided above. The estimate does not include any design work as the update will be isolated to the new company setups which impacts the integration between Oracle eBS and PowerPlan.

Financial Assessment Summary

In summary, the one-time costs for the Oracle eBS, PowerPlan, and Legacy costs are within \$15.9-\$17.5 million (we assume \$15.9 million). This includes both capital and overhead costs associated with the software project. This estimate is based on similar previous experience and the findings from this evaluation. **Figure 6-1** below delineates the breakdown of each component of the one-time costs.

**Figure 6-1
Financial Assessment Incremental Costs from Legal Merger**

Area	Name	One-Time/Ongoing	Cost
IT	Oracle eBS configuration	One-Time	\$4,500,000
IT	PowerPlan configuration	One-Time	\$4,500,000
IT	Customer application update	One-Time	\$1,300,000
IT	Other systems update	One-Time	\$5,600,000
Total One-time Costs			\$15,900,000

7. First Mortgage Bond/Capital Structure Assessment

First Mortgage Bonds

Similar to most utilities, KU and LG&E each have outstanding debt in the form of First Mortgage Bonds (the “FMBs”), which have been issued either directly into the taxable market or as collateral for tax-exempt bonds issued by various counties on their behalf. Each issuer currently maintains a separate indenture for their respective debt complex with a first lien on utility assets specific to each business. Specifically, KU has \$2.3 billion of taxable FMBs outstanding today with maturities ranging from 2025 – 2050 and \$342 million issued to collateralize the tax-exempt debt complex (maturities ranging from 2023-2042). LG&E has \$1.5 billion of taxable FMBs outstanding (maturities ranging from 2025-2049) and \$539 million issued to collateralize its tax-exempt transactions (maturities ranging from 2026-2044).

Following a legal merger of the Company, KU and LG&E FMBs can remain in place provided that the successor entity is organized under US law, assumes the payment of principal and interest, and confirms the lien of the mortgage on existing property. Each outstanding FMB indenture (KU and LG&E) would remain in place in this scenario and cannot be combined such that KU FMBs still have collateral on prior KU assets and LG&E FMBs have security on prior LG&E assets. Absent any incremental structuring, refinancing KU and LG&E FMBs on a go-forward basis would require this bifurcated lien approach. We view issuing future debt under this construct, while permissible, as suboptimal from a capital markets perspective and could result in future debt offerings pricing at a premium as investors will prefer a simplified collateral structure. With this in mind, there are several alternatives that can be voluntarily implemented to streamline the pro forma capital structure, each with economic considerations.

One alternative we understand the Company considered and rejected, is to refinance all outstanding FMBs at both KU and LG&E and issue new debt under the successor entity with a “unified” indenture. We reviewed available documentation for the outstanding taxable debt and concluded that those bonds can be redeemed prior to the maturity with a “make-whole” premium (notwithstanding a short 3–6-month period prior to maturity where the bonds can be redeemed at par). We estimate this premium (not inclusive of principal) on the outstanding taxable bonds at KU and LG&E to be sizable at \$720 million and \$484 million, respectively.

The Company could also attempt to utilize a liability management strategy such as a tender process or conducting direct negotiation with lenders to redeem outstanding FMBs. This strategy, however, cannot guarantee the complete redemption of all bonds as tenders are optional and investors can decide not to sell at any price. This strategy would also involve incremental expense to hire an investment bank to manage the tender process as well as an information/tender agent. We also note that capital markets conditions would need to be supportive at the time of refinancing with either path (make-whole or liability management), as a sizable amount of debt would be raised.

In summary, we agree with management's view that a full refinancing at merger is too onerous from an expense perspective and would proceed with an approach that keeps the current debt complex in place and refinance outstanding FMBs over time.

We understand that KU and LG&E have contemplated the creation of a new Collateral Trust Mortgage structure (the "CTM") which would eliminate several of the issues described above. Under this structure, the successor entity would issue CTM bonds under a new indenture for the combined business. These CTM bonds would have a second lien on the total assets of the successor entity, behind outstanding KU and LG&E FMBs from a priority perspective. However, by the successor entity issuing similarly sized FMBs under the existing KU and LG&E indentures to the CTM as collateral, it would avoid any economic subordination that the CTM bonds might potentially face as a result of its lien priority. Additionally, the CTM construct would not only allow for future debt issuance to be issued under a consolidated collateral package but would also allow the Company to refinance outstanding debt as it comes due to avoid paying any premiums associated with a premature refinancing. Over time, once the existing FMBs are finally refinanced by CTM bonds, the CTM bonds would have a first lien priority over the successor company assets. The Company's legal counsel estimates the costs to set up the CTM structure, including drafting the new documentation as well as negotiations with underwriters/trustees/local counsel, to be approximately \$350,000.

To the extent that the Company wanted to keep outstanding FMBs in place, utilize a unified indenture, and avoid expenses associated with a CTM structure, the Company can issue debt at an entity "higher" in the organizational structure (e.g., LKE). Consideration for refinancing debt at this entity includes structural subordination as well as a ratings impact to the new debt (LKE is currently rated Baa1/A- by Moody's and S&P, respectively, vs KU at A1/A and LG&E at A1/A), which in turn could negatively impact pricing.

Capital Structure Considerations

Credit Line Assessment

We reviewed available credit agreement documentation at KU and LG&E. KU currently has a \$400 million revolving credit facility (the "Revolver") that matures in 2026. LG&E has a \$500 million revolving credit facility that matures in 2026. Each Revolver has 21 lenders comprising a combination of domestic and international financial institutions with Wells Fargo acting as Administrative Agent on both facilities.

We understand that the Company believes that in a merger the successor company would likely only require \$700 million of availability under a revolver to support its commercial paper program in addition to other working capital needs. Elimination of commitments will result in a reduction in annual undrawn fees paid by the successor entity, an elimination of an administrative agent fee for one of the facilities and reduced upfront/arranger fees to the bank group when refinancing. The Company's current credit agreements have a rating-based undrawn fee construct. With an A Borrower Rating from S&P and an A1 rating from Moody's, the rating-based grid in the credit agreements requires the Company pay to its bank group a 0.10% or 10 bps Commitment Fee. Based on the \$200 million reduction assumed by the Company and assuming

that the future credit agreement of the successor entity has a similar pricing construct, we conclude that an annual estimated \$200,000 savings can be achieved through a legal merger. We also assume an annual \$25,000 administrative agent fee will be eliminated through a legal merger.

Rating Agency Assessment

KU and LG&E are currently rated by both S&P and Moody's. We reviewed available documentation published by each agency.

Moody's rates both KU and LG&E with an issuer rating of A3 with a stable outlook, its FMBs issued with an A1 rating, as well as an A3 for the Credit Facility and P-2 rating for its commercial paper program (as of October 27, 2021). S&P rates KU and LG&E with an issuer rating of A- with a stable outlook, its Senior Secured issue rating of A, and a A-2 rating for its commercial paper program (as of April 13, 2021).

When assessing potential savings associated with a legal merger of the two entities in regard to rating agency fees, we take the view that the CTM structure is a likely outcome and therefore assume that KU/LG&E FMBs will be refinanced over time in the normal course (versus a full refinancing at merger). In our view, from an FMB standpoint, given PPL is the ultimate parent of both KU and LG&E, we view a merger to have minimal effect on rating agency fees. As FMBs are refinanced via CTM bonds, there will be a 'per issue' paid to both S&P and Moody's, while annual fees are generally fixed and not dependent either on the number of tranches outstanding or how often debt is refinanced.

We understand that in regard to the commercial paper program, S&P's fee consists of an initial fee, an annual surveillance fee and a quarterly usage fee. A combination of KU and LG&E will likely result in the elimination of a surveillance fee associated with two programs merging into one, as well as a reduction in the usage fees owing to an assumed reduced commercial paper program. We assume savings related to the commercial paper program to be in the \$50,000 - \$100,000 area (we assume \$50,000).

First Mortgage Bond/Capital Structure Assessment Summary

Based on our assessment of capital structure considerations from the potential legal merger, we estimated incremental savings through simplification of the capital structure and the resulting reduction of third party fees of approximately \$275,000. We also estimate approximately \$350,000 in capital structure costs.

Figure 7-1
Financial Assessment Incremental Savings from Legal Merger

Area	Name	One-Time/Ongoing	Savings
Capital Structure	Reduction in undrawn revolver commitment fees	Ongoing	\$200,000
Capital Structure	Elimination of one administrative agent fee	Ongoing	\$25,000
Capital Structure	Reduction in rating agency expenses	Ongoing	\$50,000
Total Ongoing Savings			\$ 275,000

Figure 7-2
Financial Assessment Incremental Costs from Legal Merger

Area	Name	One-Time/Ongoing	Cost
Capital Structure	Legal Expense to Implement CTM structure	One-time	\$350,000
Total One-time Costs			\$350,000

8. Tax Assessment

Investment Tax Credit

We have considered LG&E and KU accounting and ratemaking for investment tax credits (“ITCs”).

IRC section 46 provided taxpayers with a One-Time election to be made in 1972 as to treatment of ITCs for ratemaking and for its regulated books of account. Under the provisions of IRC section 46(f)(1) (“Option 1”), the credit may not be flowed through to income (i.e., used to reduce taxpayer's cost of service) but in certain circumstances may be used to reduce rate base (provided that such reduction is restored not less rapidly than ratably). If an election is made under IRC section 46(f)(2) (“Option 2”), the credit may be flowed through to income (but not more rapidly than ratably) and there may not be any reduction in rate base. Such an election, once made, may not be revoked except with the consent of the Secretary. The ITC was repealed in connection with the 1986 Tax Reform Act.

We note the following per discussion with management:

- KU ITCs are accounted for under Option 1. For ratemaking purposes, Option 1 utilities have a rate base offset for the unamortized balance of the ITC, but the reduction to financial income tax expense due to amortizing the ITC is not included in the determination of cost of service and is amortized below the line.
- LG&E elected Option 2. For ratemaking purposes, Option 2 utilities do not reduce rate base by the unamortized balance of the ITC. Rather, the ratable financial amortization of the ITC over the service lives of the related property is treated as a reduction of the cost of service and it is amortized above the line.

KU and LG&E have unamortized historical ITCs of \$87.0 million and \$32.2 million, respectively, that should be considered in the accounting methods review in the legal merger of KU and LG&E.

Because of the different ratemaking treatments under Option 1 and Option 2 and the need to comply with such treatment in order to avoid an IRC Normalization violation, we agree with management’s conclusions that a Private Letter Ruling (“PLR”) should be requested from the IRS in order to conclude on the impact of the merger and convergence of its accounting and ratemaking policies. There is no specific guidance on this topic issued by the Treasury or the IRS. The PLR should request the IRS provide guidance as to whether the elected method should be maintained until historical ITCs are fully amortized even though only one rate order will be approved going forward after the merger, or whether this election is akin to an “accounting method” and should convert to the surviving entities accounting method. The ultimate outcome of the PLR cannot be determined.

The estimated cost for drafting and obtaining the PLR is \$150,000.

State and Local Taxes (as of December 1, 2021)

Income/Franchise Tax

Management indicated that the Company primarily provides electric utility services to customers in Kentucky. In addition, we observed that LG&E owns and operates gas storage facilities and electric transmission lines in Indiana and that KU provides electric utility services in Virginia. In addition to Kentucky and Virginia, Management indicated that KU has property and payroll in Tennessee and LKS has at least one employee in Texas, one employee in Tennessee, one in Georgia, and two employees in Florida.

Management indicated that the Company files a unitary combined return in Kentucky consisting of LKE, LG&E, KU, LKS, Lexington Utilities, LG&E Energy, LG&E and KU Hydro, and Western Kentucky Energy. We understand that the Company files the following returns on a separate company basis: LG&E in Indiana, KU in Tennessee and Virginia, and LKS in Texas. In addition, Management indicated that LKE files net profits tax returns in approximately 60 Kentucky localities. Management also indicated that the Company does not have any local Virginia tax liabilities. Based on reading of the Company's apportionment workpapers indicating where the Company has operations and activities, the Company appears to file state income/franchise tax returns in the appropriate jurisdictions.

We understand that the merger is anticipated to be structured as a tax-free reorganization for federal income tax purposes. Generally, states conform to the corporate reorganization provisions of the Internal Revenue Service and are treated as tax-free reorganizations for state income tax purposes. We do not expect the contemplated merger to have an impact on LKE's local Kentucky tax filings because LKE is not part of the contemplated merger.

Following the contemplated merger, the activities of LG&E, KU, and LKS should be reported under one entity, LG&E and KU NewCo. As such, a single return is expected to be filed in Indiana, Kentucky, Tennessee, Texas, and Virginia for the post-merger periods. In addition, states may require that LG&E, KU, and LKS close their income/franchise tax accounts. Based on our understanding that over 95% of the activity of these entities is in Kentucky and that the Company currently files a unitary combined return in Kentucky, we do not expect the state income tax to be materially different in Kentucky after the contemplated merger. We note that LG&E reported zero apportionment on its Indiana corporate income tax return, and we do not expect the contemplated merger to result in incremental Indiana income tax. Management indicated the Company has ceased its regulated activities in Tennessee, and LG&E and KU NewCo should have filing obligations in Tennessee for post-merger tax periods due to KU's assets and substations located in Tennessee. We do not expect the contemplated merger to result in incremental Tennessee income/franchise tax to the extent that the income and Tennessee apportionment for 2020 are representative of LG&E and KU's income and Tennessee apportionment for post-merger tax periods. Assuming the income, apportionment, and Virginia Electric Suppliers Minimum Tax for 2020 are representative of LG&E and KU NewCo's income, apportionment, and minimum tax for the post-merger tax periods, we estimate the annual Virginia corporate income tax, after application of the Virginia Electric Supplier Minimum Tax credits, to be approximately \$100,000. We note that Virginia allows corporations with nexus in Virginia to elect to file Virginia corporate

income tax returns on a combined or consolidated basis. The Company may consider whether opportunity exists for LG&E and KU Newco to file on a combined or consolidated basis with LKE.

Unitary Combined Reporting (as of December 1, 2021)

Management indicated that the Company files a unitary combined report for Kentucky corporation tax purposes that does not include any other entities of PPL Corporation. Based on information provided by Management, the Company takes the position that it is not engaged in a unitary business with PPL Corporation because the Company's operations are independent of PPL Corporation's operations. In support of the non-unitary filing position, Management noted that the Company has separate management staff, accounting staff, systems, corporation functions (tax, payroll, purchasing, human resources, marketing, etc.), pension and benefit plans, insurance policies, bank accounts, and external legal counsel. We were able to confirm many of these points based on our review as part of Section 5 Operational Assessment. Further, Management indicated that the Company's operations are vertically integrated and remain autonomous and independent of PPL Corporation's operations. Based on the foregoing, the Company's filing position that the Company is not engaged in a unitary business with PPL Corporation appears reasonable.

Following the contemplated merger, the activities of the Company are expected to be reported by a single entity, LG&E and KU Newco. We do not expect the Kentucky income tax filed for the Company's unitary group before the contemplated merger and of LG&E and KU Newco after the contemplated merger to be materially different.

We understand that LKS currently files a Texas franchise tax return on a separate company basis. While Texas requires a unitary combined report to be filed by a group of commonly owned entities engaged in a unitary business, Texas law prohibits a provider of retail and wholesale electric utilities from joining a combined return with entities that do not provide retail or wholesale electric utilities. As such, it appears reasonable that LKS files a separate Texas franchise tax return. We understand that LG&E and KU do not have property or employees in Texas and should not be required to file franchise tax returns in Texas.

State Tax Attributes

Management indicated that the Company reported approximately \$710 million in Kentucky net operating loss ("NOL") carryforwards. We understand that the Kentucky NOLs were generated by LKE. We also understand that approximately \$80 million of the NOL carryforwards were generated in tax years after 2017, and the utilization of such NOLs are limited to 80% of taxable income. We note that Kentucky generally conforms to IRC section 381 and unused Kentucky NOLs should be carried forward to the surviving corporation to the same extent as for federal income tax purposes. Moreover, LKE owns the entities subject to the proposed merger, but its ownership should not be impacted by the contemplated merger.

Kentucky permits members included in unitary combined return to share NOL carryforwards between members subject to certain limitations. Following the contemplated merger, the activities of LG&E, KU, and LKS should be reported under LG&E and KU Newco, which is expected to file a unitary return with LKE for Kentucky corporate income tax purposes. As such, LKE's

Kentucky NOLs may be shared with LG&E and KU Newco, subject to certain limitations on the sharing of NOLs with members included on the Kentucky unitary combined return.

Further, Management indicated that KU has approximately \$1.8 million in Virginia Electric Supplier Minimum Tax credits. Electric suppliers are subject to a minimum tax based on gross receipts and the excess of the minimum tax over its Virginia corporate income tax liability for the tax years is available to credit against its Virginia corporate income tax liability for future tax years. Virginia statutes do not specifically address whether Electric Supplier Minimum Tax credits succeed a merger. Virginia may conform to IRC section 381 and 383; however, the rules of statutory construction provide that ambiguity in statutes regarding deductions and credits are interpreted in favor of the government. As such, there is risk that LG&E and KU Newco may not succeed to the carryforwards of the Company's Virginia Electric Supplier Minimum Tax credits and such credit may not be utilized against the estimated increase in Virginia corporate income tax as a result of the contemplated merger.

Sales and Use Tax

Management indicated that the Company files sales and use tax returns, including in Kentucky and Virginia. We note that a company with nexus in the state should be required to file a sales and use tax return regardless of whether it makes taxable sales. As a result of the contemplated merger, the Company may be required to close its existing registrations and register LG&E and KU Newco for sales and use tax purposes in the relevant states.

Sales tax is generally imposed on the sale of tangible personal property and certain services enumerated by statute as taxable services, unless an exemption applies. Kentucky provides that tangible personal property includes natural, artificial, and mixed gas, electricity, water, and steam and such sales should be subject to sales tax, unless an exemption applies. Kentucky exempts the sale of such services to residential, governmental, certain nonprofit entities, and to other utilities who resell the utility services. As such, the Company's determination that such sales are not subject to sales tax appears reasonable. We understand that the Company collects sales tax on sales of utility services to industrial, commercial, and gas transportation customers, unless the customer provides an energy direct pay exemption certificate.

We understand that the Company sells electric utility services to customers located in Virginia. Virginia generally exempts from sales tax the sale of gas, electricity or water delivered to consumers through mains, lines, or pipes. As such, the sales of electric utility services by the Company should not be subject to Virginia sales tax.

Kentucky and Virginia may exempt from sales tax an occasional sale of tangible personal property held or used in the course of an activity for which a seller's permit is required. These states provide that the sale of substantially all of a business' assets or a transfer of assets in a reorganization may qualify as an occasional sale that is not subject to sales tax. The exemption in Kentucky applies to all transfers of tangible personal property where the real ultimate ownership of the property is substantially similar before and after the transfer. The transfer of tangible personal property, other than motor vehicles, due to the contemplated merger of LG&E, KU, and LKS should be exempt from Kentucky sales tax as an occasional sale. The transfer of tangible

personal property in Virginia may also qualify as an occasional sale exemption and may not be subject to sales tax. We understand that most of the tangible personal property is located in Kentucky.

States may exclude the transfer of motor vehicles from the occasional sale exemption and the transfer of motor vehicles may be subject to sales tax or similar taxes applicable to motor vehicles. The transfer of motor vehicles, if any, may be subject to sales tax or similar taxes (e.g., motor vehicle usage tax).

Most states require a taxpayer to self-assess and accrue use tax on taxable purchases to the extent the vendor does not charge the appropriate amount of sales tax on the transaction. Management indicated that LG&E and KU provide their vendors with direct pay permits and self-assess and remit use tax, rather than have their vendors collect sales tax on the Company's purchases. Management indicated that the Company self-assesses, and remits use tax on its taxable purchases, which are generally related to material used in the Company's distribution activities. Based on the Company's procedures, the Company uses sales tax software to identify its taxable purchases and determine the use tax remitted to the state.

Payroll Tax

Management indicated that LG&E, KU, and LKS have employees located in Indiana, Kentucky, Tennessee, Texas, and Virginia and file payroll tax (income tax withholding and/or state unemployment insurance) returns in these states. Due to the contemplated merger, these entities may be required to close their existing state payroll tax registrations and be required to submit a new registration for LG&E and KU Newco.

Management indicated the Company utilizes individual independent contractors. Under certain circumstances, taxing authorities may reclassify individual independent contractors as common law employees if the work performed by such individuals closely resembles work typically performed by employees. The employer may be liable for federal and state withholding taxes, Social Security, and Medicare taxes, as well as penalties and interest on amounts paid to independent contractors who are reclassified as employees. Based on a review of the summary of the Company's Forms 1099 issued to individuals during 2018, 2019, and 2020, most of these individuals are not paid significant amounts. We understand that the Company uses an independent contractor questionnaire to evaluate all individuals who provide services for the Company to determine whether they should be appropriately classified as employees or independent contractors. Further, our review indicates that the significant amounts were paid to individuals providing easements or landscaping or construction services, which may not rise to such individuals being reclassified as employees.

Property Tax

Management indicated that the LG&E and KU file returns for and pay real property taxes in Kentucky. In addition, Management indicated that LG&E files personal property tax returns in Indiana and Kentucky and that KU files personal property tax returns in Kentucky, Tennessee, and Virginia. Based on a reading of the Company's property apportionment workpapers, the Company appears to file property tax returns in the appropriate jurisdictions.

Kentucky required the county property value administrators to reassess the value of real property on an annual basis. As such, Kentucky does not have caps or limits on the assessed value of real property that would be uncapped due to the merger.

Management indicated that LG&E and KU have frequently contested State assessments with respect to the value of personal property reported on LG&E and KU's returns and have frequently been successful in this regard. Based on discussions with Management, LG&E and KU have protested and been successful in its appeals of Kentucky personal property tax assessments for the last eight years. Management indicated that the Company protested recent assessments in November 2021.

Abandoned and Unclaimed Property ("AUP")

Most states require taxpayers to remit AUP (e.g., payroll checks, accounts payable checks, accounts receivable customer credit balances, along with many other property types unique to each industry) after a specified period of dormancy. After a dormancy period has passed, the holder of the property has an obligation to reunite the property with its rightful owner or remit the amounts to the appropriate states. According to the defined priority rules under state statutes, the property first goes to the state of the last known address and second to the state of incorporation or organization of the holder if the address is not known.

Management indicated that LKE issues notification letters to each owner to the extent the value of the unclaimed property exceeds a minimum threshold amount. Based on Management's procedures, we understand that LKE tracks property in its AUP database that is unclaimed after a year. To the extent that there has been no contact with the owners for more than three years, Management indicated that LKE files AUP reports in Kentucky with respect to unclaimed wages, dividends, customer account credit balances, and uncashed checks. Kentucky presumes that property is considered unclaimed after three years, however, stock or other intangible ownership in a business association is presumed abandoned after five years. Therefore, LKE may be reporting unclaimed dividends to Kentucky before the dormancy period has passed.

Management indicated that LKE's AUP is primarily reported to Kentucky, but LKE may also file reports in Alabama, Arkansas, Delaware, Illinois, New Jersey, Maryland, Michigan, North Dakota, Tennessee and Virginia. We note that some states may have shorter dormancy periods than Kentucky. However, some states may have longer dormancy periods (e.g., Virginia) and LKE maybe reporting property in such states before the dormancy period has passed.

Realty Transfer Tax

Some states impose realty transfer taxes on the transfer of real property, including certain leases of real property. In addition, some states' realty transfer taxes also apply to real property or leases transferred pursuant to the transfer of a controlling interest in an entity that owns or leases real property.

Management indicated that LG&E and KU own real property located in Kentucky. We note that Kentucky does not impose a controlling interest transfer tax. Moreover, Kentucky exempts transfers of property made pursuant to a merger, consolidation, or conversion of a corporation

to be subject to its realty transfer tax. Therefore, the transfer of Kentucky real property pursuant to the merger is not expected to result in Kentucky realty transfer tax.

Tax Assessment Summary

Based on our review of the tax implications for ITC treatment and state and local taxes from the potential legal merger of the Company, we identified ongoing costs of \$100,000 per year related to incremental Virginia corporate tax liabilities. One-time costs relate to securing an IRS Private Letter Ruling to determine the appropriate ITC tax treatment.

Figure 8-1
Tax Assessment Incremental Costs from Legal Merger

Area	Name	One-Time/Ongoing	Cost
Investment Tax Credit	Drafting and obtaining a Private Letter Ruling for the IRS	One-Time	\$150,000
State Income Tax	Incremental Virginia corporate income tax liability due to contemplated merger	Ongoing	\$100,000
Total One-time Costs			\$150,000
Total Ongoing Costs			\$100,000

9. Accounting, Rates and Regulatory Assessment

Accounting

From an accounting standpoint, the Company effectively uses the FERC Uniform System of Accounts (“USoA”) as their general ledger and produces financial statements that are filed with the Securities and Exchange Commission and FERC. A legal merger of the Company will reduce the number of financial statement filings. Instead of separate SEC filings for each entity, the annual Form 10-K and quarterly Form 10-Q’s, only one combined filing will be required. Similarly, only one combined annual FERC Form 1 and Quarterly Form 3-Q’s will be required instead of separate filings. Separate financial statement filings for LG&E’s Gas Distribution operations will continue.

There is currently a service company, LKS, providing a number of services to both LG&E and KU. All accounting personnel for LG&E and KU are employees in LKS (approximately 70 individuals), and participate in activities within the following functions: payroll accounting, tax accounting, financial reporting, corporate accounting, property accounting, financial systems and revenue accounting. As described earlier in this report, to the extent that LG&E and KU legally merge, the requirement to maintain a separate service company no longer exists (other than to provide shared services between the electric and gas businesses). Eliminating LKS would reduce certain activities, among which is the need to allocate LKS costs to the separate entities and fewer intercompany charging issues. It is also possible for some LKS personnel/activities to move to the PPL service company, with economies of scope and scale available.

The Company has previously estimated that elimination of LKS could produce ongoing cost reductions of approximately \$350,000. This estimate is based on eliminating three analyst positions (\$300,000) through elimination of FERC Form 60 preparation and filing requirements, reduced tax and payroll compliance, intercompany billing simplification and LKS reporting. Additional cost reductions (\$50,000) could result from reduction in bank fees and eliminating XBRL Workiva licensing costs from eliminating the Form 60 requirements. We compared the labor estimate above to the average wage and benefit market rates for this level of analyst position provided by the Company and validated that the labor estimate above approximates the market. The estimated reduction in bank fees and Workiva licensing appears reasonable.

Even if LKS remains, ongoing savings will occur resulting from the elimination of the separate SEC and FERC financial statement filings discussed above. In the Merger Study, the Company estimates a savings of approximately 12,000 hours and \$607,000 of wages and benefits (estimated at six individuals) as well as one manager with wages and benefits of \$155,000 for a total savings of \$762,000. The estimate of activities that could be eliminated are: accounting analysts, payroll accountants, revenue accountants and property accountants. The estimated hour reductions appear reasonable in our professional opinion. The hourly rates themselves were validated by obtaining evidence of current market rates for the eliminated hours/positions. Based on Company data, approximately 40% must be added for benefits (medical, team incentive

awards, etc.). We reviewed the benefit buildup, and it appears reasonable. We have recomputed the estimated savings to be \$825,000 (\$590,000 labor cost for the six individuals and one manager plus 40% benefit loadings of \$235,000).

Reducing the number of financial statement filings will also result in a reduction in the cost of the annual audit. The external auditors previously provided management with an estimate of the audit cost reduction (driven by the reduction in required external financial reports) of approximately \$450,000. We have reviewed correspondence from the external auditor supporting that estimate.

In order to achieve the legal merger, additional accounting costs will be required primarily in the information systems area. These costs would include those required to modify the General Ledger (Oracle), as well as the Plant, Income Tax and Budgeting accounting systems (PowerPlan) to accommodate combining the “books and records” of the separate entities. Our estimate of the information system requirements and costs are separately discussed in Section 6.

Finally, modifications to processes and controls in connection with information technology transformations will require additional one-time costs from the independent auditor to understand and validate revised/modified processes and controls. Such one-time costs have been estimated by the Company's independent accountant to be approximately \$700,000. This estimated one-time reduction has been validated by reference to correspondence from the independent auditor.

Regulatory

From a regulatory standpoint, customers will benefit from the efficiency and simplified rate administration as separate regulatory proceedings will no longer be required. The need for separate base rate and cost recovery clause proceedings, demand side management goals and plans and other regulatory requirements will no longer exist. However, because LG&E and KU have had many years to obtain efficiencies in the regulatory area, many reports and proceedings are already submitted on a combined basis; therefore, additional cost benefits to be obtained from a legal merger would appear to be minimal.

The obvious benefit of one rate case versus two is also diminished as the Company currently files both LG&E and KU electric rate cases at the same time. Although there are separate revenue requirement filings, the timelines, supporting witnesses, approach/methodologies, supporting rate schedules, data requests, and witness cross-examination processes are generally the same for each entity.

Because the rate cases are currently filed together, the Company has estimated an ongoing headcount reduction of one person (approximately \$120,000). This amount is consistent with the market rate described above. The ability to file rate cases on a combined basis will reduce the number of notices required to be published in local newspapers, as well as reduction in obtaining separate cost of service/rate design studies. The Company estimates \$120,000 savings for the non-labor cost reduction for these two activities, which appears reasonable in our view.

Additionally, the Company estimates a small reduction in legal costs by eliminating one of the filings, approximately \$125,000. Based on the fact that the rate case filings are currently handled as one (separate filings, but all at the same time), we believe that management's assertion that minimal additional savings can be achieved upon a legal merger is reasonable.

There will be a cost associated with obtaining FERC and State approval of the Legal Merger. The Company has estimated a \$1 million cost to achieve the merger (approximately \$800,000 with the Kentucky Public Service Commission regulator and \$200,000 with FERC). These amounts are based on previous filings and are not unreasonable in our opinion.

The Company also estimates that shortly after the Merger is approved, a rate filing to conform revenue requirements will be necessary. Existing affiliate transaction agreements will need to be revised and filed with the Kentucky Commission and approved by the Virginia Commission. We have reviewed the rate case costs of LG&E and KU recent filings and, based on the costs incurred in such filings, the estimated additional rate case filing could approximate \$3.5 million.

With legal mergers of regulated utilities within the same jurisdiction, the issue of existing tariffs is typically addressed. At some point in the future, a rate case filing will be made with a combined revenue requirement. In connection with the rate case, a new cost of service and rate design will occur and presumably become effective, thereby setting new tariffs for each customer group.

When the tariffs resulting from the new rate case are determined, they need to be compared to the existing tariffs of the separate utilities. It is likely that some customers in some rate classes will experience a tariff increase while others will experience a tariff reduction. To the extent that combined efficiencies from the legal merger lower the combined revenue requirement, it is possible that all or most customer classes can have a tariff reduction, with some rate classes experiencing more of a reduction than others. We did not find this to be the case in our analysis of this potential legal merger.

In our experience, tariff rates are often equalized, generally over a transition period ranging from five to more than ten years. A positive aspect of tariff equalization is that the overall revenue remains stable and does not create a need for additional revenue requirement.

In the Company's previous merger study, a calculation was shown of the impact of implementing the lowest of the two existing tariffs which results in a \$56 million revenue loss (i.e., revenue requirement shortfall). In our experience, we have not seen this approach adopted by regulators, and in the examples presented below rates were normalized using a similar method as the model utilized in the Company's average rate analysis.

Examples of rate equalizations in a number of merged/acquired entities are included below.

Wisconsin

American Transmission Company (ATC) was formed in 2000/2001 by the individual utility's

participants contributing their owned transmission assets. Just prior to formation, each of the utilities had their own independent transmission rates. When ATC was formed, a combined revenue requirement and new tariff was derived for the combined entity. The difference between the pre-formation and post-formation rate tariffs was equalized to ATC's customers over a five-year period.

Iowa

In Iowa, Mid-American Energy acquired/merged three separate electric utilities, each an investor-owned utility subject to rate regulation. Upon the acquisition, existing tariffs remained in place for each of the three predecessor companies' customers for several years, even though they had been merged into a single entity. In a subsequent electric rate case, equalization factors were put in place to transition all customers to the same tariffs over a period of 10 years. One set of tariffs was developed for all customers, with a rate equalization factor applied as a rider that moved to zero at the end of the 10-year period.

Florida

Recently, Gulf Power and Florida Power & Light Company received approval from the Florida Public Service Commission and FERC for a legal merger following the 2019 acquisition. The request was for the two entities to reflect a common set of operations from a single utility system. As part of the request, the existing rate tariffs would be canceled, and a unified rate tariff would be adopted, effective in 2022, reflecting the reality that customers would be receiving service from one functionally integrated system. A transition rider/credit was established for the difference in rate tariffs that would be amortized ratably over a five-year period. The transition rider increased rates for one company's customers and credited the rates of the other company's customers so that all customers have the same base and clause rates. System average rates in 2021 were used to determine the average. The transition rider/credit declines to zero ratably over a five-year period, reflecting the diminishing ability to reach objectively defined allocations of costs among customers located in one part of the state versus another, who are served by one functionally integrated company and from a common set of assets and employees, without geographical distinction.

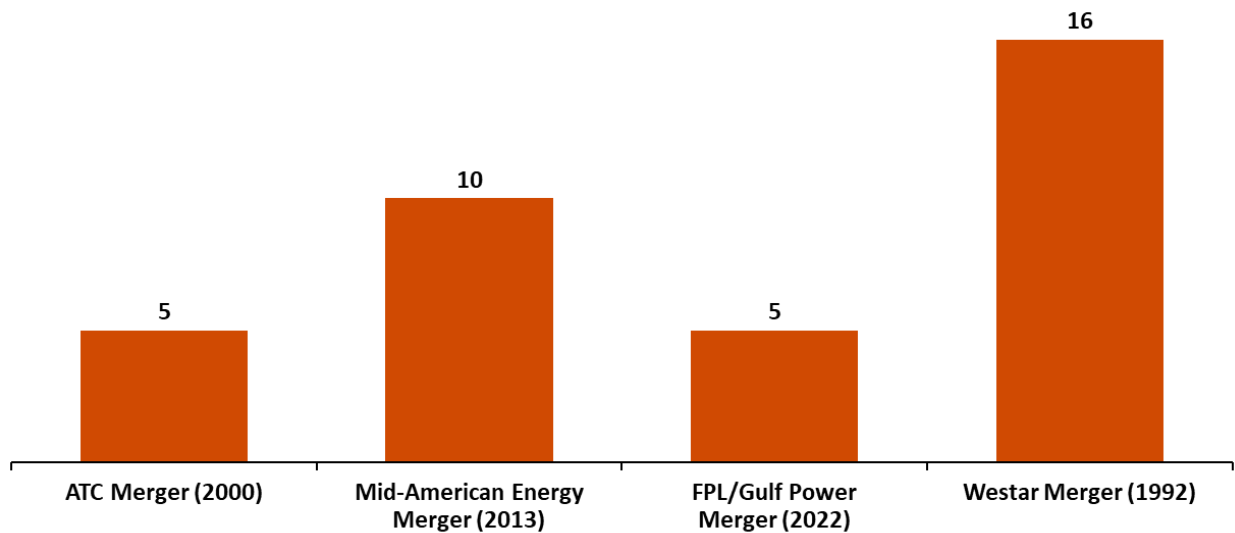
Kansas

In the early 1990's, several investor-owned utilities serving various areas of Kansas were acquired or merged into Westar (nee Western Resources). The separate company rates/tariffs of the individual entities were equalized over 16 years. In 2018, Westar and Great Plains Energy were merged into Eversource, serving customers in Kansas and Missouri.

Thus, one option available to equalize LG&E and KU rate tariffs until a combined filing and new rate structure is determined would be to implement a transition rider based on averaging the LG&E and KU rate tariffs, similar to what is described above. Such transition rider/equalization factor would then be reduced to zero over a period of years as agreed upon by the parties.

Figure 9-1
Comparison of Rate Equalization Periods

Years to Achieve Rate Harmonization



Based on our research in other jurisdictions as well as our experience in the industry, we have observed that when utilities are combined, it is not uncommon to equalize the rate tariffs, over time, to reflect that customers are being served by an integrated entity. In order to achieve rate equalization, a new combined revenue requirement is developed with new cost of service and rate design factors. As stated above, the difference between existing rate tariffs and combined rate tariffs is calculated and implemented through a transition charge over time until rate equalization is achieved.

The Company has prepared an assessment of the differences in revenue requirements by major customer classes of LG&E and KU in **Figure 9-2** below under the assumption of maintaining the total current revenue requirement.

Figure 9-2
Financial Impact of Rate Equalization Harmonization by Rate Class

Rate Class	KU		LG&E	
Residential Rate RS (inclusive of VFD)		\$9.1M	-\$9.1M	
Residential Time-of-Day Service Rate RTOD	\$0.0M		\$0.0M	
General Service Rate GS	-\$9.1M			\$9.1M
General Service Time-of-Day Rate GTOD	\$0.0M		\$0.0M	
All Electric School Rate AES (KU Only)	\$0.0M		\$0.0M	
Power Service Rates PSS and PSP	-\$1.2M			\$1.2M
Time-of-Day Service Rates TODS and TODP		\$9.3M	-\$9.3M	
Retail Transmission Service Rate RTS		\$0.8M	-\$0.8M	
Fluctuating Load Service Rate FLS	\$0.0M		\$0.0M	
Special Contracts (LG&E Only)	\$0.0M		\$0.0M	
Lighting Energy Rate LE	\$0.0M		\$0.0M	
Traffic Energy Rate TE	\$0.0M		\$0.0M	
Outdoor Sports Lighting Service Rates OSLS and OSLP	\$0.0M		\$0.0M	
Electric Vehicle Charging Rate EVC	\$0.0M		\$0.0M	
Lighting Service and Restricted Lighting Service Rates LS and RLS	-\$1.4M			\$1.4M
Total Change		\$7.5M	-\$7.5M	

Lower Rate
Higher Rate

Source: LG&E and KU analysis

As illustrated in this Figure, overall KU revenue requirements would increase by \$7.5 million while LG&E revenue requirements would decrease by the same amount in order to maintain the current combined revenue requirement. Individual LG&E and KU customer classes would be negatively impacted (rate increase) if rates were to be harmonized; however, this harmonization would likely take place over an extended transition period agreed to by the Company and the KPSC.

Accounting, Rates and Regulatory Assessment Summary

Based on our assessment of the regulatory and rates considerations from the potential legal merger, we estimated incremental savings of \$2 million through simplification of the reporting and regulatory requirements that result from the reduction to one legal entity. The incremental costs associated with the legal merger of \$5.2 million largely relate to one-time costs for regulatory approvals and rate cases as well as process and controls modifications.

**Figure 9-3
Regulatory & Accounting Assessment Incremental Savings from Legal Merger**

Area	Name	One-Time/Ongoing	Savings
Accounting	Labor/non-labor reduction due to elimination of LKS	Ongoing	\$350,000
Accounting	Headcount reductions due to one versus two Annual and Quarterly Financial Statement Filings (Form 10-K, 10-Q, FERC Form 1, Form 3-Q)	Ongoing	\$825,000
Accounting	Independent Audit	Ongoing	\$450,000
Regulatory	Labor Reduction due to one versus two rate case/regulatory filings	Ongoing	\$120,000
Regulatory	Fewer newspaper notification requirements for rate changes and one less cost of service/rate design studies	Ongoing (when rate filings are required)	\$120,000
Regulatory	Legal involvement in rate cases/regulatory filings	Ongoing	\$125,000
Total Ongoing Savings			\$ 1,990,000

**Figure 9-4
Regulatory & Accounting Assessment Incremental Costs from Legal Merger**

Area	Name	One-Time/Ongoing	Cost
Accounting	Additional Cost for independent Auditors to Audit processes and controls of Information System Modifications Identified in Section 6	One-Time	\$700,000
Regulatory	Kentucky Legal Merger Approval Filing	One-Time	\$800,000
Regulatory	FERC Legal Merger Approval Filing	One-Time	\$200,000
Regulatory	Initial Filing for Combined revenue requirement, cost of service and rate design	One-Time	\$3,500,000
Total One-time Costs			\$5,200,000

10. Conclusion

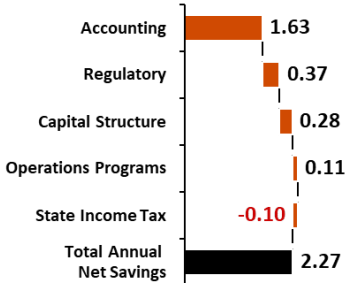
Our review of the potential legal merger of the Company considered many dimensions including how the Company currently operates, what financial reporting and capital structure changes would need to be addressed, potential federal and state tax impacts, and rates and regulatory implications.

Since its merger in 1998, the Company largely operates on an integrated basis across corporate, power production, customer, transmission and distribution operations having captured the synergies we typically find in utility combinations.

The summary of the estimated incremental savings and costs resulting from our assessment is in **Figure 10-1** below.

Figure 10-1
Annual Net Savings and One-Time Costs of LG&E and KU Legal Merger

Annual Net Savings
 \$ millions per year



One-Time Costs
 \$ millions



Based on this analysis, estimated one-time incremental costs of \$22.1 million largely exceed estimated annual net savings of \$2.3 million. Cost reduction opportunities resulting from the legal merger can be largely characterized as benefits from simplifying the legal entity structure from three entities to one and the resulting reduction of internal or third party administrative costs. The largest estimated one-time cost incurred relates to the system modifications required to financially report in a single entity environment. Additional costs relate to regulatory approvals and rate case filings to effect the proposed merger.

Our review found that future financing and tax considerations from the legal merger would likely not result in material financial impacts but entail the complexities and risks from implementing potentially new financial instruments or securing IRS private letter rulings.

For comparative purposes, the estimated annual net savings of \$2.3 million represent approximately 0.3% of Company non-fuel electric O&M, whereas in traditional synergistic utility mergers, savings average approximately 7% of total combined O&M.

These annual savings would permanently reduce costs while the costs we have identified are one-time. Applying an inflation factor to these savings and reflecting a two-year period to realize these savings upon completion of the technology upgrade, cumulative savings would not exceed cost incurred until year 10 as shown in **Figure 10-2** below.

Figure 10-2
Cumulative Annual Net Savings and Costs Comparison¹

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Savings Realization Assumption	50%	100%									
Annual Escalation Assumption									3%		
Annual Net Savings	\$2.27	\$ 1.14	\$ 2.34	\$ 2.41	\$ 2.48	\$ 2.55	\$ 2.63	\$ 2.71	\$ 2.79	\$ 2.88	\$ 2.96
One-time Costs	\$ (22.10)	\$ (22.10)									
Net Savings / (Costs)	\$ (20.97)	\$ 2.34	\$ 2.41	\$ 2.48	\$ 2.55	\$ 2.63	\$ 2.71	\$ 2.79	\$ 2.88	\$ 2.96	
Cumulative Savings / (Costs)	\$ (20.97)	\$ (18.63)	\$ (16.22)	\$ (13.74)	\$ (11.18)	\$ (8.55)	\$ (5.84)	\$ (3.05)	\$ (0.17)	\$ 2.79	

¹ This is a cash only view of savings and costs and does not consider revenue requirement treatment of O&M and Capital as well as carrying charges for any expenses incurred and deferred for recovery from ratepayers in the future. Alternative rate normalization approaches taken could also create a revenue shortfall that could add to the cost of the merger.

Finally, our review of similar transactions suggests that, while not common, some utilities function without services companies where multi-jurisdictional utilities or significant non-regulated operations exist. Because of the different legal structures and business portfolios of these entities, they are not directly comparable to the Company. Also, our review suggests in those cases that apply, customer rate harmonization has typically been performed over a multi-year period to mitigate the impacts of customer rate changes over a longer period of time.

Exhibits

Exhibit

1

Experience Profile and Summary Resumes

Our team's experience in these areas is summarized in the following areas:

Merger Benefit/Cost Assessment - assist with the identification and quantification of potential synergies and costs to achieve associated with utility combinations including the planning for synergy capture, operating model development, and merger integration.

Legal and Contracts - Advise on potential impacts from merger activities including legal entity consolidation, contract renegotiations, and template revisions

Finance and Accounting - Strategize and implement large-scale finance transformations including end-to-end process design for core operations, delivery and organization design, integration support/Day 1 readiness, and reporting.

Debt Advisory - Advise on complex debt instruments, refinancings and capital structures

Tax - Provide tax accounting, compliance, and consulting services in connection with accounting/tax methods, consolidated returns, partnerships, reorganizations and restructuring, and due diligence services. This includes federal and state and local income and non-income taxes.

Rates and Regulatory - Advise utility clients on complex regulatory accounting and ratemaking matters & case filings tailored for regional specificity.

Corresponding resumes are included below.

Summary Resumes



Todd Jirovec

Principal, PwC Strategy& Power & Utilities Practice

Background

Todd Jirovec is a Dallas-based partner with Strategy& and has over 25 years of experience in strategy and operations consulting, particularly with electric and gas utilities, energy trading and midstream gas companies. During this period, he has directed numerous engagements in the areas of strategic planning, business model development, performance and process improvement, domestic and international mergers and acquisitions, diversification, and organizational restructuring.

Prior to joining PwC Strategy&, Todd was a partner with Deloitte Consulting in a similar capacity. He was also a Vice President of Franchise Development for Koch Energy where he was responsible for midstream gas acquisitions and integration.

Selected project experience

- Led teams in all facets of the M&A value chain including target assessment, target valuation, due diligence, synergy / cost estimation and capture, regulatory strategy and integration process having supported over 15 publicly announced transactions.
- Led policy, merger and rate analysis studies resulting in the filing of direct testimony in regulatory filings. Have filed testimony in many jurisdictions and have testified before regulatory commissions.
- Led Board level strategic assessments of organic and inorganic growth options for electric, gas, and water utilities. Experience with investor-owned, municipal and cooperative entities.
- Led the response planning for utility facing external stakeholder scrutiny resulting from unplanned events including restructuring scenario planning, discovery data response preparation, spend and event analysis and internal governance framework establishment. Have served as expert witness in the context of regulatory proceedings for rate and policy topics.
- Directed assignment that evaluated the organizational options to separate electric and gas utility operations. Evaluated governance and accountability models to align decision making in separate organizations.
- Directed a review of strategic options for an integrated transmission and distribution, water and wastewater, and power generation company. Assessed market potential in each segment, alignment of current shareholder base with risk and reward profile for each business segment, and recommended future organization path to better align growth opportunities and shareholder risk profile.
- Led functional improvement projects focused on cost reduction and performance improvement in operations, finance, human resources, information technology, real estate and other corporate and operating areas, including the development of detailed cost and staffing baselines, comparison of baselines (cost and capability) to relevant industry benchmarks, identification of business requirements, and identification of initiatives to close performance gaps.
- Led the review of the performance management processes for the operations support business unit (supply chain, transportation, corporate security, corporate real estate) for an electric and gas transmission and distribution focused utility. Engagement focused on Key Performance Indicator simplification and integration with corporate objectives, streamlined and standardized reporting, and governance and accountability clarification.



Sean Riley

Partner, PwC Regulatory / Accounting Practice

Background

Based out of our Boston Office, Sean is a dedicated member of PwC's Utility & Sustainable Energy practice. He currently has two roles within PwC. First, he serves as the lead relationship partner on some of PwC's most significant Utility clients, including Eversource Energy. In addition, he leads PwC's Complex Accounting and Regulatory Solutions (CARS) team. In this role, Sean oversees an experienced team of Utility sector specialists that advise PwC sector clients on complex technical accounting, regulatory, and ratemaking matters.

Sean previously completed a three-year tour as PwC's Utility and Sustainable Energy technical accounting leader in the Accounting Services Group within PwC's National Office.

Selected project experience

Sean has specialized in serving public and privately-owned clients in the Independent Power, Renewable Energy and Regulated Electric and Gas Utility sectors. Over his 29+year career, Sean has provided leadership and direction around a variety of transactional, regulatory, and technical accounting matters, including complex contract accounting, cost capitalization (including overhead allocations / time studies), regulatory accounting, ratemaking (including regulatory processes and controls, and State / FERC enforcement matters) and business combinations.

In addition, Sean has interacted extensively with Regulators, Intervenors and Other Parties with interests in rate case proceedings. Sean has also acted as a formal expert witness in utility rate case proceedings across the U.S. on a variety of technical accounting matters.

Examples of recent testimony experience includes the following:

- Hawaii Electric – 2020 (PBR)
- Duke Energy Progress – 2020 (Coal Ash)
- Duke Energy Carolinas – 2020 (Coal Ash)
- Gridliance – 2020 (FERC, Start-up costs)

Sean's client service experience includes having worked with virtually all our sector clients in the Northeast and New York markets, as well as numerous other Power, Utility and Renewables clients across the U.S. in an assurance or advisory capacity. A representative listing of other sector companies that Sean has worked with includes Ameren, Consolidated Edison, Duke Energy, Edison International, Hawaii Electric, Iberdrola / Avangrid, National Grid USA, MGE Energy, Pacific Gas & Electric and Sempra Energy.

Sean is a frequent speaker at PwC industry events, as well as for organizations such as the Edison Electric Institute and American Gas Association.



Alan Felsenthal

Managing Director, PwC Regulatory / Accounting Practice

Background

Alan is a Managing Director in PwC Power and Utilities Sector and is a member of the Firm's Complex Accounting and Regulatory Solutions (CARS) practice with more than 45 years of experience working with utilities clients on accounting matters, rate cases, and a variety of special projects. Prior to PwC, Alan rose through the ranks at Arthur Andersen LLP utilities and telecommunications practice (1971-2002).

Selected project experience

- Financial statement auditor for the audits of several public companies including Allegheny Energy, The Peoples Gas, Light and Coke Company, Constellation Energy, Ameritech, Nicor, NiSource, LGE Corporation, Centel Corporation, Utilities, Inc. (water and sewer) and United Airlines. Where applicable, audits of FERC Form 1 and FERC Form 2's were included.
- Involved in multiple projects relating to rate case testimony on a number of issues including income tax normalization, treatment of excess ADIT, pro forma adjustments/forecast test period assumptions, including the prepaid pension asset in rate base and reasonableness of cost allocation methodologies for allocating shared service costs among affiliates and between expense and capital. Has testified in Arizona, Connecticut, the FERC, Florida, Hawaii, Illinois, Indiana, New Jersey, Maine, Missouri Ohio, Texas, Utah, Washington State, and West Virginia.
- Consulted on cost allocation projects in U.S. and Canada re: U.S. perspective on recovery of holding company costs and supporting the capitalization of overhead costs.
- Led projects addressing continuing property record (CPR) compliance, property retirement process, risks and documentation, including unitization.
- Provided accounting, process and control documentation, and regulatory expertise on a number of software implementations.
- Conducted periodic time studies supporting a regulated utility's capitalization of administrative and general costs.
- Developed and instructed seminars covering the unique aspects of the traditional regulatory process and its effect on accounting, tax and financial reporting.
- Speaker at various Edison Electric Institute/American Gas Association seminars on accounting and income tax matters.



Gwynn Stott
Partner, PwC Tax Practice

Background

Gwynn is a Partner in PwC's Tax practice and serves large public and private energy and utilities clients with merchant and regulated operations

Selected project experience

- Specializes in tax accounting and consulting, along with accounting methods, consolidated returns, partnerships, reorgs and restructuring, and due diligence services
- Served a large, publicly-traded company through its spin-off transaction and the related transition of tax processes and data flows from the parent company
- Brings relevant experience in ASC 740, tax accounting related to purchase accounting, tax basis balance sheets, and analysis of uncertain tax positions
- Provides tax reform insights as it relates to the sector
- Significant experience in separate company reporting under SEC and AICPA accounting standards for regulated utilities



Mary McGettigan
Director, PwC Tax Practice

Background

Mary McGettigan is a Tax Director in the Core Tax practice of PwC's Philadelphia office. She has over 16 years of experience in the audit and preparation of income tax provisions, tax compliance, and consulting in connection with US tax reform, business combinations, and other tax planning opportunities for various industries including manufacturing/distribution, pharmaceuticals, and utilities sectors.

Mary has a bachelor's degree in accounting from LaSalle University in Philadelphia, is licensed as a CPA in the Commonwealth of Pennsylvania and is a member of the AICPA and PICPA.

Mary is a co-founder of a non-profit organization "Cara's Sweethearts", raising funds for local children's hospitals and affiliated programs and hosting an annual holiday toy drive in honor of her daughter Cara. She serves as a Board Member and Treasurer for CORA Services, Inc. and is a LEADERSHIP Philadelphia Fellow. She is involved in recruiting efforts and alumni relationships at La Salle University and volunteers locally in the community, primarily at The Children's Hospital of Philadelphia, Ronald McDonald House, Fox Chase Soccer Club, and St. Cecilia School

Selected project experience

- Deep experience with auditing income taxes in accordance with ASC 740, including analysis of uncertain tax positions, tax basis balance sheets, and purchase accounting
- Extensive knowledge of separate company reporting under SEC and AICPA accounting standards for regulated utilities
- Member of PwC's tax accounting services network, focused on regulatory and legislative tax knowledge to share with clients and within PwC
- In 2020, worked with KPMG to transition the audit of a large multinational client to PwC



Blake Cooper

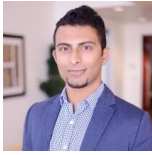
Principal, PwC Advisory Finance Transformation

Background

Blake is a partner with more than 20 years of experience in external audit and consulting. Focusing on initiatives to improve the finance function in the energy and utilities sector, Blake provides a balance of core finance process improvement and enterprise performance management (EPM) experience, centered around technology. He has worked with both IT and finance stakeholders to develop the requirements and gain consensus across organizations to confirm the successful deployment of leading-edge tools, including Oracle.

Selected project experience

- Blake's unique skill set enables him to complement deep functional finance knowledge with extensive experience across multiple technology platforms. He has led large, global projects to address complex client issues, and offers the experience necessary to drive client success.
- Led multiple assessments, roadmaps, and business cases across multiple industries (including financial services, technology, energy/utilities, and diversified manufacturing) as his clients prepared for a finance transformation
- Directed end-to-end implementations of general ledger, plant accounting, and budgeting and forecasting solutions to support improved financial reporting environments at multiple electric and gas utilities
- Architected finance transformation solutions for a domestic water utility and service provider, including upgrading an existing general ledger environment and implementing new budgeting and forecasting and plant accounting tools
- Led the upgrade assessment at a large electric utility, working with management to develop options for implementation, identify areas for improvement, prepare benchmarks based on experience at other utilities, and advise on the path forward



Kaushik Narayanan
Director, PwC Advisory

Background

Kaushik is a Director with PwC's Advisory practice in San Francisco specializing in buy-side and sell-side M&A deals. He effectively strings together the multi-functional interests of Supply Chain, Finance, Tax, Legal and IT to lead clients from deal due-diligence through deal-close. He advises clients on the operational complexities of Sale & Purchase Agreements to increase deal value and ensure successful transitions from pre-close through post-deal TSA.

He has also helped clients navigate the complexities of strategic sourcing - Demand forecasting, sensitivity analysis, cost modeling, licensing considerations, designing/advising on supplier negotiations and BATNA - to drive short-term and long-term cost savings with a strategic view towards the future-state portfolio.

Selected project experience

- Gas Operations Spinoff– Kaushik was the contract separation lead that identified, disposed and engaged nearly 4000 vendors as part of the transition effort. He ensured timely communication to fulfill legal obligations, cost estimations to forecast potential risks and separation activities, as well as provided key design inputs into the TSA work stream to cater for contractual obligations and appropriate billing mechanisms. Furthermore, he led the identification and mitigation of nearly \$10M of technology-related spend stemming from contractual obligations
 - Fossil Generation Asset Sale – Kaushik led the contract separation for the sale of Fossil assets to a Private Equity joint venture. He led the review and disposition of 2,000 contracts to effectively create a Day 1 roadmap outlining the vendor-level transition plan. He created customized negotiation playbooks and led active vendor negotiations to minimize one-time costs and obtain the necessary third-party consents. He actively engaged with the Buyers to minimize operational disruption during contractual transfers, while minimizing stranded costs associated with the transaction
 - Fossil Generation Separation – Kaushik led the non-labor assessment of stranded costs, as part of a potential asset sale, and helped identify \$14M in cost savings to mitigate the stranded costs. He helped establish the framework, governance, and procedures for cost mitigation and led an 8-person procurement team towards savings realization across 12 different nonlabor categories
-



Chitrlekha Chaturvedi
Director, PwC Advisory

Background

Chitra Chaturvedi is an Atlanta-based director within the Finance Transformation practice. She has 11 years of experience in back office implementations, transformations, and mergers & integrations with electric and gas utilities. She has focused on business process transformation, functional architecture design, strategic design, and implementation efforts within Finance, Accounting, Tax, Operations, Supply Chain, and Human Resources. During this period, she led large scale teams, both onshore and offshore, with expertise across ERP, EPM, PowerPlan, and Tax applications.

Selected project experience

- Large Southern Electric and Gas Utility Transformation: Finance, Accounting, Tax lead of the business driven transformation implementing Oracle Cloud suite (ERP, EPM, OACS) across all Finance areas for both electric and gas utilities; delivery lead of business process maps, configuration, deployment, testing, cutover, and deployment; solution architect lead across Oracle Cloud solution suite with Finance, Tax, Operations, Supply Chain, and Budgeting driving new business process maps from assessment to build; designing future state work management solution partnering with Oracle ERP
- Large Southern Electric and Gas Utility Merger: Functional lead and architect for integration / merger of two large Southern electric and gas utility across Oracle Platform helping to modernize the footprint & develop consistent, standard business processes
- Large Northeast Utility Merger: Work management integration lead for finance transformation program of two Northeast Utilities with different work management landscapes; documented and identified impacts to Asset and Tax functions with PowerPlan including integration design inbound and outbound
- Large Midwest Utility merger: Led business assessment of the merger of two Midwest utility mergers for the Asset and Tax function from business process to system usage to support integration needs & change impacts
- Large Southern Gas Utility: Led the assessment and re-design effort of the Work Management and Finance (PeopleSoft) integration with PowerPlan to ensure a full end-to-end solution to support Tax Repairs, Budgeting, and Fixed Assets working with Managers, Directors, Controller, and VPs in Operations, Finance and Tax



Robert Cohen

Director, PwC Advisory - Debt Advisory

Background

Robert leads PwC's Debt Capital Markets Advisory efforts, assisting corporate and private equity clients with evaluating debt financing alternatives, readiness and positioning, rating agency preparation and execution, lender targeting/management, credit documentation, syndication, execution and the debt raising process in general. His services cover acquisition finance/leveraged buyouts, dividend recapitalizations, refinancings and restructurings, amendments/waivers and maturity extensions, and direct lending.

Prior to PwC, Robert was a Director in the Leveraged Finance group at BMO Capital Markets, where he led the origination, structuring and execution of non-investment grade debt for corporate and private equity clients. Robert has advised across a wide array of strategic financing activities and brings broad expertise across a range of industries including industrials, technology and business services, consumer and retail, healthcare and gaming/media among others. Prior to BMO Capital Markets, Robert worked in the Leveraged Finance group at Citi.

Robert also spent time at Merrill Lynch as an Equity Research Analyst advising clients on the Gaming, Lodging and Leisure industries.

Robert holds a Bachelor of Arts in Economics from Cornell University and an MBA from The Stern School of Business at New York University.

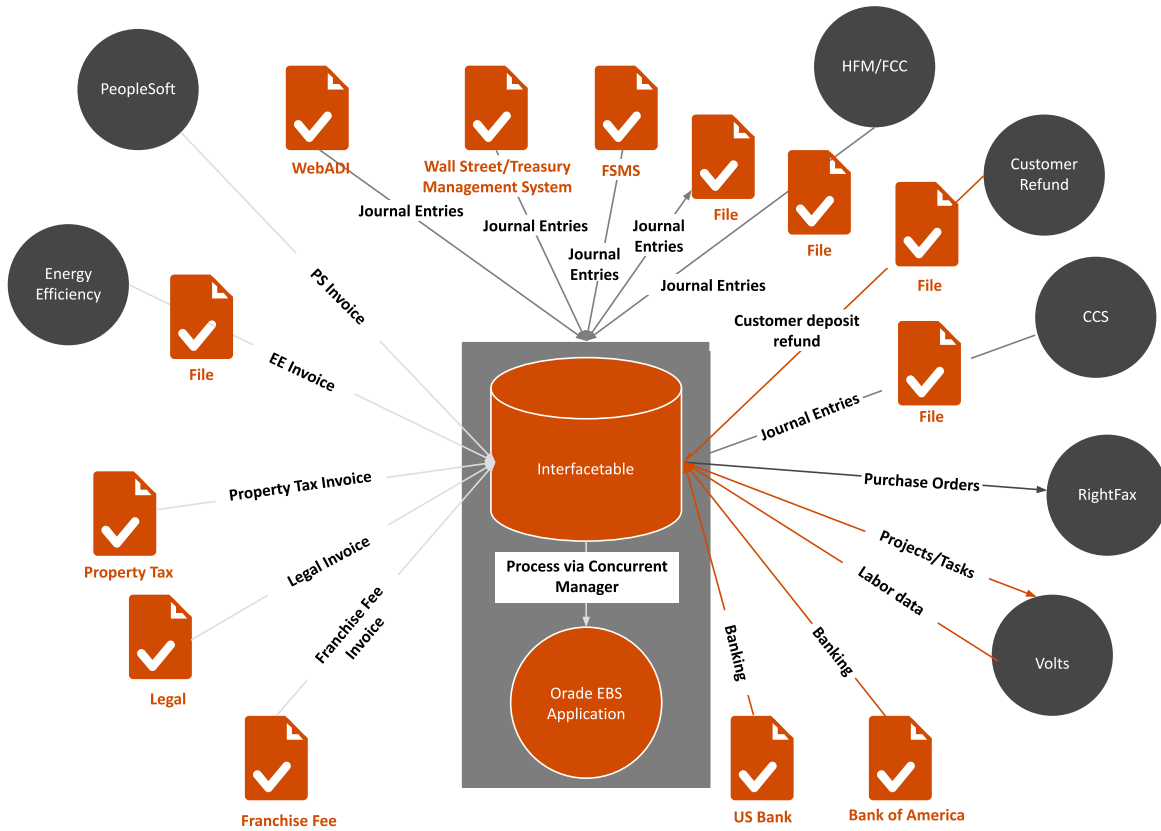
Selected project experience

- Capital Structure and Financing Alternatives: Analysis, assessment, and selection of strategic financing solutions
- Acquisition and LBO Structuring: Comprehensive exploration of the acquisition finance process
- Debt Readiness: Outline and develop the 'Debt Story' to best position a company in the debt markets
- Capital Markets Insight: Delivering in-depth market updates & trends to aid decision-making
- Rating Agency Process: Deep dive into credit rating preparation, execution and correspondence
- Credit Documentation: Develop credit documentation with best-in-class frameworks
- Syndication and Execution: Syndication preparation including lender targeting and management
- Refinancing Considerations / Liability Management: Determine refinancing strategies; manage liabilities and relationships

Exhibit 2
LG&E and KU Merger History and Ownership Profile

Year	Description
1998	LG&E Energy Corp. acquires KU Energy Corp. with approval of Kentucky and other state commissions. LG&E Energy Corp becomes holding company for both LG&E and KU.
1998	Joint integration and operation of the LG&E and KU systems, functions and operations begins.
2000	PowerGen acquires LG&E Energy Corp. LG&E and KU are held as subsidiaries under PowerGen and first direct tier subsidiaries of LG&E Energy Corp.
2000	PowerGen and LG&E Energy Corp. formed LG&E Energy Services, Inc. to provide centralized administrative and corporate services to LG&E and KU to comply with the then existing Public Utility Holding Company Act of 1934 requirements.
2001	E.ON acquires PowerGen and therefore LG&E and KU.
2010	PPL acquires E.ON US, the US operations of E.ON (chiefly LG&E and KU). LG&E and KU Energy LLC (LKE) as the holding company for LG&E and KU is held under PPL.

Exhibit 3
Oracle eBS System Architecture as of January 18, 2020



**Exhibit 4
LG&E and KU System Diagram as of January 18, 2020**

