COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING THE ESTABLISHMENT OF REGULATORY LIABILITIES AND REGULATORY ASSETS	**))))))**	**CASE NO. 2018-00304**

VERIFIED APPLICATION

Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively "the Companies") apply to the Kentucky Public Service Commission ("Commission") pursuant to KRS 278.220 for an order by December 31, 2018, permitting the Companies to establish regulatory liabilities to account for the excess accumulated deferred income taxes ("ADIT") created by recent Kentucky state tax reform and to establish regulatory assets to account for the Companies' expenses incurred to repair damage and restore service to their customers caused by severe thunderstorms beginning on July 20, 2018 (the "July 2018 Storm"). In support of this Application, the Companies respectfully state:

1. Applicant LG&E's full name and post office address is: Louisville Gas and Electric Company, 220 West Main Street, Post Office Box 32010, Louisville, Kentucky 40202.

2. LG&E is incorporated in the Commonwealth of Kentucky and attests that it is in good corporate standing. LG&E was incorporated in Kentucky on July 2, 1913.

3. LG&E is a public utility, as defined in KRS 278.010(3)(a), engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble Counties. LG&E also purchases, stores and transports natural

gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington Counties.

4. Applicant KU's full name and post office address is: Kentucky Utilities Company, 220 West Main Street, Post Office Box 32010, Louisville, Kentucky 40202.

5. KU was incorporated in Kentucky on August 17, 1912, and in Virginia on November 26, 1991 (and effective as of December 1, 1991), and is in good standing in both Kentucky and Virginia.

6. KU is a utility engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail in the following counties in Central, Northern, Southeastern, and Western Kentucky:

Adair	Edmonson	Jessamine	Ohio
Anderson	Estill	Knox	Oldham
Ballard	Fayette	Larue	Owen
Barren	Fleming	Laurel	Pendleton
Bath	Franklin	Lee	Pulaski
Bell	Fulton	Lincoln	Robertson
Bourbon	Gallatin	Livingston	Rockcastle
Boyle	Garrard	Lyon	Rowan
Bracken	Grant	Madison	Russell
Bullitt	Grayson	Marion	Scott
Caldwell	Green	Mason	Shelby
Campbell	Hardin	McCracken	Spencer
Carlisle	Harlan	McCreary	Taylor
Carroll	Harrison	McLean	Trimble
Casey	Hart	Mercer	Union
Christian	Henderson	Montgomery	Washington
Clark	Henry	Muhlenberg	Webster
Clay	Hickman	Nelson	Whitley
Crittenden	Hopkins	Nicholas	Woodford
Daviess			

7. The Companies may be reached by electronic mail at the electronic mail addresses of its counsel and corporate representatives set forth below.

8. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

Robert M. Conroy
Vice President, State Regulation and Rates
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9. This Application is filed pursuant to KRS 278.220, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction, and pursuant to the Commission's plenary authority to regulate utilities under KRS 278.040.

KENTUCKY STATE TAX REFORM

10. The 2018 Kentucky General Assembly adopted two bills which make substantial changes to Kentucky's tax code. House Bill ("H.B.") 366 (which was adopted in its entirety into H.B. 487) and H.B. 487 make a number of changes to Kentucky's income taxes, and sales and use taxes, as well as reforms aimed at simplifying compliance with the administration of Kentucky's tax statutes.

11. H.B. 487 reduces the generally applicable corporate and individual income tax rates, makes certain changes to the corporate and individual income tax bases, and adopts single sales factor apportionment for multistate companies. Prior to the implementation of H.B. 487, the Companies paid a state corporate income tax rate of 6%. For taxable years beginning on or after January 1, 2018, the state corporate income tax will be imposed at a 5% tax rate.[1]

12. Consistent with the federal Tax Cuts and Jobs Act ("TCJA"), the reduction in the state corporate income tax rate from 6% to 5% will result in income tax savings for customers. The Companies' *income tax expense* will be reduced as a result of the tax rate reduction. Additionally, previous ADIT benefits on the Companies' books as of December 31, 2017 will now "reverse" at 5% rather than at the 6% rate, creating "excess deferred taxes."

13. The Companies request permission to record net regulatory liabilities by the end of this year for the excess ADIT created by the reduction in the state corporate income tax rate. The Companies estimate the net regulatory liabilities including gross-ups to be approximately $19.4 million for KU, $12.5 million for LG&E Electric, and $3.1 million for LG&E Gas. The associated calculations and journal entries are provided on Exhibit 1. As for *income tax expense* savings resulting from the lower tax rate, the Companies have not established regulatory liabilities consistent with prior state tax reform cases.[2] As was the case in those proceedings, the Companies will address the non-mechanism related savings as part of their next base rate case filings, which the Companies have submitted notices of their intention to file such rate

[1] H.B. 366 at sec. 58, amending KRS 141.040. H.B. 487 incorporates the entirety of H.B. 366.
[2] *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Accounting Treatment Relating to Income Tax Expense for 2005 and Subsequent Years*, Case No. 2005-00180, Order (Ky. PSC June 30, 2005); *In the Matter of: Application of Kentucky Utilities Company for an Order Approving the Accounting Treatment Relating to Income Tax Expense for 2005 and Subsequent Years*, Case No. 2005-00181, Order (Ky. PSC June 30, 2005).

cases by September 28, 2018.[3] This will ensure that all aspects of state tax reform are appropriately considered, including the sizable increase in sales tax. Exhibit 2 provides a breakdown of the additional sales tax the Companies estimate they will incur on an annual basis from the expansion of sales tax on certain services included in H.B. 487.

14. The Companies request to amortize the excess ADIT created by the reduction in the state corporate income tax rate in the same manner that they amortized the excess ADIT created by the federal TCJA.[4] The Companies propose to account for the state corporate tax rate reduction by amortizing all protected excess ADIT using the Average Rate Assumption Method and amortizing all unprotected excess ADIT over a 15-year amortization period. The Companies propose to continue to treat all property-related excess ADIT as protected. The amortization of the unprotected excess ADIT will begin when new base rates take effect. Exhibit 3 provides a detailed breakdown of the excess ADIT balances between protected and unprotected and the estimated annual amortization.

15. Tax savings associated with the Companies' rate mechanisms, such as the environmental cost recovery ("ECR") surcharge and demand side management ("DSM") mechanism, have embedded procedural provisions to provide a true-up of actual tax rates, excess ADIT amortization, and associated rate base amounts. The Companies' will employ

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[3] *In the Matter of: Electronic Application of Kentucky Utilities Company for an Adjustment of Its Rates*, Case No. 2018-00294; *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates*, Case No. 2018-00295.

[4] *See In the Matter of: Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company and Louisville Gas and Electric Company*, Case No. 2018-00034, Order (Ky. PSC Mar. 20, 2018). In its March 20, 2018 Order, the Commission approved, with modifications, the Companies' *Offer and Acceptance of Satisfaction*. Appendix C of the Order shows the Commission's approval and use of ARAM for the amortization of protected excess ADIT and the 15-year straight line amortization period for unprotected excess ADIT.

these procedural mechanisms to return the benefits of the reduction in the state corporate income tax rate to customers in due course.[5]

16. In order to make the appropriate accounting entries by the end of the calendar year, the Companies request an order permitting the establishment of these net regulatory liabilities by December 31, 2018.

JULY 2018 STORM

17. On Friday, July 20, 2018, rounds of severe thunderstorms carrying large hail, high winds, heavy rain, and tornadoes passed through the service territories of the Companies. The July 2018 Storm caused significant damage to the Companies' distribution and transmission facilities and left nearly 174,000 of the Companies' customers without power. The National Weather Service in Louisville reported that the July 2018 Storm caused softball-size hail four inches in diameter, four confirmed tornadoes, wind damage, and heavy rain.[6] Near-hurricane-force wind gusts of 70 mph were measured at the Lexington Bluegrass Airport.[7]

18. The July 2018 Storm's powerful conditions caused extensive, widespread damage across the KU and LG&E system, taking down 1,200 wires and damaging 200 poles and other equipment across the Companies' distribution and transmission infrastructure. Considering the number of customers impacted and the cost of the damage, the July 2018 Storm ranks among the top five most damaging storms to hit the KU and LG&E system.

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[5] The Companies currently have six-month ECR review proceedings underway, in which the ECR surcharges will be updated to return the benefits of the state tax reform to customers. *In the Matter of: Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period Ending April 30, 2018*, Case No. 2018-00257 (Ky. PSC Initiated Aug. 10, 2018); *In the Matter of: Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Period Ending April 30, 2018*, Case No. 2018-00258 (Ky. PSC Initiated Aug. 10, 2018).

[6] National Weather Service, *Severe Weather Summary for Friday, July 20*, https://www.weather.gov/lmk/SevereWeatherSummaryforFridayJuly202018.

[7] *Id.*

19. The Companies continually monitor the weather and fully utilized the best available resources to monitor the July 2018 Storm. As a result, the Companies were aware of the threat of the July 2018 Storm and prepared for its potential impact. For instance, the Companies had contractor crews that were scheduled to travel long distances to return home prior to the arrival of the July 2018 Storm. Foreseeing the potential need for the crews, the Companies held the contractor crews in anticipation of the July 2018 Storm. The contractor crews being readily available helped facilitate the Companies' quick response and prevented some contractor crew travel to respond to the July 2018 Storm. Further, recent upgrades to the Companies' infrastructure helped to limit interruptions and outages. Particularly, the Companies' installation of Distribution Automation ("DA") to date resulted in the avoidance of 4,400 customer interruptions and over 5 million customer outage minutes.

20. After the July 2018 Storm, the Companies immediately began to restore the loss of power to their customers. Through the day-and-night efforts of the Companies' personnel and contractors beginning on July 20, power was restored to all impacted LG&E customers on July 23 and to all impacted KU customers on July 24. Clean-up efforts, including post-circuit inspections were conducted on July 25. At their peak, the Companies' restoration efforts were carried out by nearly 1,200 employees and contractors. Many of the mutual assistance restoration crews came from other states, including Arkansas, Indiana, Illinois, Michigan, Ohio, Tennessee, and Wisconsin.

21. This assistance was greatly needed and resulted in power being restored to customers in a quicker fashion than otherwise would have been possible. The Companies' need to summon contractors and mutual assistance was necessitated by the extraordinary number of downed lines and broken poles. This plethora of downed lines and broken poles required time-

and labor-intensive work to repair, and resulted in the need for more equipment such as bucket trucks.

22. Repairing such extraordinary, significant, and widespread damage was costly. A schedule detailing KU's and LG&E's July 2018 Storm repair costs is attached as Exhibit 4. The amount of July 2018 Storm repair costs approaches the annual storm-related operation and maintenance expenses ("O&M") embedded in base rates. These costs shown on Exhibit 4 are estimates based on actual and estimated costs incurred to date. The Companies currently estimate that their incremental Kentucky July 2018 Storm-related operations and maintenance expenses will be approximately $7.1 (KU $4.7 and LG&E $2.4) million, which excludes normal operations expenses currently embedded in base rates.

23. Because property and casualty insurance for distribution and transmission storm damage is prohibitively expensive, the Companies do not carry such insurance. As a result, the Companies have not received, and will not receive, any insurance proceeds to offset their July 2018 Storm damage costs.

24. The July 2018 Storm-related costs are extraordinary and approach the combined operations and maintenance expense budgets for storm damage of approximately $9.3 (KU $3.9 and LG&E $5.4) million that are currently embedded in base rates. When coupled with the July 2018 Storm, total Kentucky storm damage operations and maintenance costs for 2018 to date are $14.3 (KU $6.8 and LG&E $7.5) million. In addition, with four months remaining in the year, additional storm-related costs are reasonably anticipated to occur.

25. The Companies ask the Commission to permit KU and LG&E to accumulate as a regulatory asset and defer for future recovery their actual incremental July 2018 Storm-related operations and maintenance costs in the appropriate accounts. The measures the Companies

took to restore service, and the costs related thereto, were reasonable and prudent, and should therefore be recoverable as a necessary cost of providing electric service to KU and LG&E customers. If approved, KU and LG&E will hold their deferred costs in regulatory assets until the Commission considers them in the upcoming rate proceedings.[8]

26. The Commission has approved regulatory asset treatment for the Companies in the past for extraordinary storm damages which could not have reasonably been anticipated or included in the Companies' planning. For example, the Commission approved LG&E's 2011 request to establish a regulatory asset in the amount of $8.1 million, based on its costs for storm damages and service restoration due to a storm that occurred August 13, 2011.[9] Additionally, for expenses associated with the restoration of electric service following the 2009 winter storm that impacted much of Kentucky, the Commission authorized LG&E to create a regulatory asset for its incremental actual costs incurred, not exceeding $45.2 million, while KU was likewise authorized to create a regulatory asset not exceeding $61.9 million.[10] The Commission also

[8] If the Commission grants their requested accounting treatment of July 2018 Storm costs, the Companies will request amortization and rate recovery of those costs in the Companies' next base rate proceedings, which the Companies will file no later than September 28, 2018.

[9] *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2011-00380, Order at 5 (Ky. PSC Dec. 27, 2011).

[10] *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2009-00175, Order at 5 (Ky. PSC Sept. 30, 2009); *In the Matter of: Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2009-00174, Order at 5 (Ky. PSC Sept. 30, 2009).

approved regulatory asset treatment for the Companies' costs associated with the remnants of Hurricane Ike in 2008,[11] the ice storm in 2003,[12] and a tornado in 1974.[13]

27. Granting such treatment in this case will allow the Companies to make appropriate adjustments on their books of account for the regulatory assets and prevent the Companies from having to record their extraordinary storm operations and maintenance costs as expenses on their books. The Companies respectfully request the Commission to state explicitly in its order that it is authorizing the Companies to accumulate in regulatory assets and defer for future recovery the actual incremental amounts of extraordinary operations and maintenance expenses the Companies incurred to repair damage and restore service to customers following the July 2018 Storm in regulatory assets.

28. The accounts the Companies will utilize to record the regulatory assets are shown on Exhibit 5.

29. In order to make the appropriate accounting entries by the end of the calendar year, the Companies request an order permitting the establishment of these regulatory assets by December 31, 2018.

WHEREFORE, Kentucky Utilities Company and Louisville Gas and Electric Company respectfully request the Commission enter an order no later than December 31, 2018:

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[11] *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2008-00456, Order at 8 (Ky. PSC Dec. 22, 2008); *In the Matter of: Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2008-00457, Order at 8 (Ky. PSC Dec. 22, 2008). The Commission approved regulatory asset treatment for the actual incremental operating and maintenance expenses in the amount of $24.1 million for LG&E and $2.56 million for KU on terms identical to those involved with the 2009 winter storm.

[12] *In the Matter of: An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 39–41 (Ky. PSC June 30, 2004). The Commission allowed KU to defer and amortize over five years the portion of its incremental 2003 ice storm damage expenses that it had not already recovered through insurance payments and KU's Earnings Sharing Mechanism.

[13] *General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company*, Case No. 6220, Order (Ky. PSC Feb. 28, 1975).

1. Authorizing the Companies to establish regulatory liabilities to account for the excess ADIT created by recent Kentucky state tax reform;

2. Authorizing the Companies to accumulate and defer for future recovery the actual incremental amounts of extraordinary operations and maintenance expenses the Companies incurred to repair damage and restore service to customers following the July 2018 Storm in regulatory assets; and

3. All other appropriate relief.

Dated: September 12, 2018

Respectfully submitted,

Allyson K. Sturgeon

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Counsel for Kentucky Utilities Company and Louisville Gas and Electric Company

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001 Section 8(7), this is to certify that Kentucky Utilities Company's and Louisville Gas and Electric Company's September 12, 2018 electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing has been transmitted to the Commission on September 12, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original in paper medium of the filing will be filed with the Commission within two business days from the date of the electronic filing.

Allyson K Sturgeon

Counsel for Kentucky Utilities Company and Louisville Gas and Electric Company

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says he is the Controller for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company; that he has personal knowledge of the matters set forth in the foregoing Application, that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Christopher M. Garrett

Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of September 2018.

Judy Schooler

Notary Public

My Commission Expires:
Judy Schooler
Notary Public, ID No. 603967
State at Large, Kentucky
Commission Expires 7/11/2022

Kentucky Utilities Company
Louisville Gas and Electric Company
Exhibit 1
Regulatory Liability
KY Tax Reform - HB 487

	KU	LG&E - Elec	LG&E Gas	LG&E Total	Combined Utilities
Property Related Deferreds (Protected)					
Cumulative State Timing Difference @ 12/31/17	(2,379,493,157)	(1,500,674,068)	(387,635,518)	(1,888,309,585)	(4,267,802,742)
KY Rate Change - includes Federal Benefit (1% - .21%)	0.79%	0.79%	0.79%	0.79%	0.79%
Deferred Tax Change	(18,797,996)	(11,855,325)	(3,062,321)	(14,917,646)	(33,715,642)
Total Deferred Tax Change	(18,797,996)	(11,855,325)	(3,062,321)	(14,917,646)	(33,715,642)
Gross-up Factor (1/(1-24.95%))	1.3324	1.3324	1.3324	1.3324	1.3324
Net Regulatory Liability	**(25,047,296)**	**(15,796,569)**	**(4,080,374)**	**(19,876,943)**	**(44,924,239)**
Other Timing Differences (Unprotected)					
Cumulative State Timing Difference @ 12/31/17	(83,282,109)	(141,902,536)	(18,078,215)	(159,980,751)	(243,262,860)
KY Rate Change - includes Federal Benefit (1% - .21%)	0.79%	0.79%	0.79%	0.79%	0.79%
Deferred Tax Change	(657,929)	(1,121,030)	(142,818)	(1,263,848)	(1,921,777)
Total Deferred Tax Change	(657,929)	(1,121,030)	(142,818)	(1,263,848)	(1,921,777)
Gross-up Factor (1/(1-24.95%))	1.3324	1.3324	1.3324	1.3324	1.3324
Net Regulatory Liability	**(876,654)**	**(1,493,711)**	**(190,297)**	**(1,684,008)**	**(2,560,662)**
Change in Gross-up Factor on Existing Regulatory Adjustments					
Excess Deferred Tax Balance - TCJA @ 12/31/17	(468,973,550)	(320,209,369)	(79,148,160)	(399,357,529)	(868,331,079)
Excess Deferred Tax Balance - Prior rate changes @ 12/31/17	(4,755,068)	(5,715,649)	(1,447,966)	(7,163,616)	(11,918,684)
Unamortized ITC Balance @ 12/31/17	(93,857,853)	(35,216,618)	(35,386)	(35,252,005)	(129,109,858)
ITC Basis Adjustments @ 12/31/17	89,034,136	21,735,503	-	21,735,503	110,769,639
AFUDC Equity Balance @ 12/31/17	17,870,543	-	-	-	17,870,543
Subtotal	(460,681,792)	(339,406,134)	(80,631,512)	(420,037,646)	(880,719,439)
Reduction in Gross-up Factor (1.3324 - 1.3466)	(0.0142)	(0.0142)	(0.0142)	(0.0142)	(0.0142)
Reduction to Existing Regulatory Adjustments	**6,530,140**	**4,811,064**	**1,142,947**	**5,954,011**	**12,484,152**
Total Regulatory Movement	**(19,393,810)**	**(12,479,216)**	**(3,127,723)**	**(15,606,939)**	**(35,000,749)**

Journal Entries

Account	Description	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
190	Deferred Tax Asset - FAS 109 Adjustment	146,766	1,214,682	187,307	1,401,989	1,548,755
190	Deferred Tax Asset - FAS 109 Gross-up	(732,936)	(633,529)	(77,415)	(710,944)	(1,443,880)
282	Deferred Tax Liability - FAS 109 Adjustment	20,122,417	12,352,835	3,150,011	15,502,846	35,625,263
283	Deferred Tax Liability - FAS 109 Adjustment	(813,258)	(591,162)	(132,180)	(723,342)	(1,536,600)
283	Deferred Tax Liability - FAS 109 Gross-up	670,821	136,390	-	136,390	807,211
	Net Deferred Tax Movement	**19,393,810**	**12,479,216**	**3,127,723**	**15,606,939**	**35,000,749**
182	Regulatory Asset	(1,515,368)	(308,100)		(308,100)	(1,823,468)
254	Regulatory Liability	(17,878,442)	(12,171,116)	(3,127,723)	(15,298,839)	(33,177,281)
	Net Regulatory Movement	**(19,393,810)**	**(12,479,216)**	**(3,127,723)**	**(15,606,939)**	**(35,000,749)**

Kentucky Utilities Company
Louisville Gas and Electric Company
Exhibit 2
Kentucky Tax Reform - HB 487

Income Tax Impacts		Estimated LG&E $ Impact	Estimated KU $ Impact
Corporate income tax rate reduced 1% (Based on 2018 calander year forecast)	The corporate income tax rate is reduced from 6% to a flat 5% effective 1/1/18. The Kentucky utility companies expect state tax expense, net of federal benefit, to decrease approximately $5 million.	$ (2,300,000)	$ (2,700,000)
Loss of state domestic production activities deduction	Due to tax reform, Kentucky's domestic production activities deduction was eliminated.	180,000	260,000
Amortization of excess deferred inc tax	Amortization of "protected" items using Average Rate Assumption Method and "unprotected" using a straight line 15 year life.	(540,000)	(560,000)
Total income tax impact before tax gross up		**$ (2,660,000)**	**$ (3,000,000)**

Sales Tax Impacts		Estimated LG&E $ Impact	Estimated KU $ Impact
Ten new taxable services			
1)Landscaping services (includes tree trimming, lawn care, snow removal)	The Kentucky Department of Revenue has said that the majority of LG&E's and KU's tree trimming is not taxable. LG&E and KU will have some taxable landscaping, such as lawn care and snow removal at certain facilities.	$ 6,000	$ 6,000
2)Janitorial services	The utilities have janitorial services that will now be a taxable service.	100,000	100,000
3)Small animal veterinary services	None	-	-
4)Pet care services	None	-	-
5)Industrial laundry services	Laundry services for the utility companies are minimal. LG&E and KU expect about $10,000 of additional annual sales tax due to taxing of laundry services.	5,000	5,000
6)Non-coin operated laundry and dry cleaning services	None	-	-
7)Linen supply services	None	-	-
8)Indoor skin tanning services	None	-	-
9)Non-medical diet and weight reducing services	None	-	-
10)Limousine services	None	-	-
Other sales tax changes			
Extended warranty services after 7/1/18	For tangible personal property and digital property the utility companies negotiate the longest "original" warranty they can get at the time of purchase of the equipment/product and do not normally purchase "extended" warranties, so there is little sales tax for this type of warranty.	30,000	30,000
Installation and repair labor for electric transmission	This represents the estimated annual installation and repair labor for retailers working for the Electric Transmission business (this excludes Electric Transmission substations and is primarily capital related).	300,000	700,000
Installation and repair labor for electric distribution	This represents the estimated annual installation and repair labor for retailers working for the Electric Distribution business (this excludes Electric Distribution substations and is mainly capital related).	650,000	1,350,000
Installation and repair labor for gas department	This represents the estimated annual installation and repair labor for retailers working for the Gas Department (mainly capital related).	1,400,000	-
Installation and repair labor for IT projects	Installation and repair labor associated with hardware and software will be subject to tax, but installation and repair labor associated with customized software will be exempt. The majority of the utility's projects are related to customized software and will be exempt.	60,000	50,000
Elimination of pollution control exemption	LG&E and KU can still exempt sales tax on pollution control equipment through either the new or expanded sales tax exemption or utility circular that assigns FERC accounts as taxable or non taxable. There should be little increase in sales tax due to the loss of the pollution control exemption. However, the utilities will be taxed on charges to the Structures account.	150,000	350,000
Total estimated sales tax		**$ 2,701,000**	**$ 2,591,000**

Note: the sales tax estimate contains both capital and operations and maintenance charges.

Kentucky Utilities Company
Exhibit 3
Excess Deferred Taxes - Protected and Unprotected
KY Tax Reform - HB 487

Description	Cumulative Timing Difference	Deferred Tax Balance at Old Rates	Deferred Tax Balance at New Rates	Excess Deferred Taxes
Protected (Property Related) Deferred Taxes:				
Tax Repairs Expensing	(85,164,450)	(4,036,795)	(3,363,996)	672,799
Contributions in Aid of Construction (CIAC)	24,049,284	1,139,936	949,947	(189,989)
Interest Capitalized	189,789,554	8,996,025	7,496,687	(1,499,337)
Other Basis Adjustments	9,060,992	429,491	357,909	(71,582)
Total Basis Adjustments	137,735,379	6,528,657	5,440,547	(1,088,109)
Tax versus Book (method/life) Depreciation - State	(2,488,807,312)	(117,969,467)	(98,307,889)	19,661,578
CCR ARO Ponds	(28,421,223)	(1,347,166)	(1,122,638)	224,528
Total Protected Deferred Taxes	**(2,379,493,157)**	**(112,787,976)**	**(93,989,980)**	**18,797,996**
Annual Excess Deferred Amortization (Average Rate Assumption Method) - 2018 Estimate				515,910
Unprotected Deferred Taxes:				
2008 Wind Storm Damages	(567,175)	(26,884)	(22,403)	4,481
2009 Winter Storm Damages	(14,786,163)	(700,864)	(584,053)	116,811
Amortization Loss on Reacquired Debt	(8,826,063)	(418,355)	(348,629)	69,726
Bad Debts Reserves	1,478,120	70,063	58,386	(11,677)
CAFC	842,194	39,920	33,267	(6,653)
CMRG Regulatory Asset	(162,196)	(7,688)	(6,407)	1,281
Contingency Reserve	2,433,539	115,350	96,125	(19,225)
Deferred Rent Payable	29,150	1,382	1,151	(230)
Demand Side Management	(482,957)	(22,892)	(19,077)	3,815
Emission Allowances	(131,237)	(6,221)	(5,184)	1,037
Environmental Cost Recovery - Current	1,118,000	52,993	44,161	(8,832)
FAC Under Recovery KY	2,965,000	140,541	117,118	(23,424)
FAS 106 Cost Write-Off (Post Retirement)	48,306,252	2,289,716	1,908,097	(381,619)
FAS 112 Cost Write-Off (Post Employment)	6,891,417	326,653	272,211	(54,442)
FAS 87 Pensions	(121,135,646)	(5,741,830)	(4,784,858)	956,972
Green River Regulatory Asset	(1,878,581)	(89,045)	(74,204)	14,841
Interest Rate Swaps	(1,166,592)	(55,296)	(46,080)	9,216
Muni True-up - Reg Asset	(5,673,389)	(268,919)	(224,099)	44,820
Off-System Sales Tracker - Reg Liab	6,219	295	246	(49)
Over/Under Accrual FICA	634,533	30,077	25,064	(5,013)
Over/Under Accrual of PSC Tax	(1,642,701)	(77,864)	(64,887)	12,977
Over/Under Accrual of UN/INS	8,338	395	329	(66)
Performance Incentive	148,278	7,028	5,857	(1,171)
Plant Outage Normalization - Reg Liability	1,220,138	57,835	48,195	(9,639)
Refined Coal - KY - Reg Liab	2,882,885	136,649	113,874	(22,775)
Refined Coal - VA - Reg Liab	313,709	14,870	12,392	(2,478)
Regulatory Expenses	(3,111,003)	(147,462)	(122,885)	24,577
Research Dev. & Demo Exp.	(1,286,609)	(60,985)	(50,821)	10,164
Tenant Incentive Amortization	(940,337)	(44,572)	(37,143)	7,429
VA over/under Recovery Fuel Clause - Current	856,000	40,574	33,812	(6,762)
Vacation Pay	4,953,373	234,790	195,658	(39,132)
Workers Compensation	3,421,394	162,174	135,145	(27,029)
Total Unprotected Deferred Taxes	**(83,282,109)**	**(3,947,572)**	**(3,289,643)**	**657,929**
Annual Excess Deferred Amortization (15-Year Amortization period)				43,862

Louisville Gas and Electric Company
Exhibit 3
Excess Deferred Taxes - Protected and Unprotected
KY Tax Reform - HB 487

Description	Cumulative Timing Difference	Deferred Tax Balance at Old Rates	Deferred Tax Balance at New Rates	Excess Deferred Taxes	Excess Deferred Taxes - Electric	Excess Deferred Taxes - Gas
Protected (Property Related) Deferred Taxes:						
Tax Repairs Expensing	(65,353,044)	(3,097,734)	(2,581,445)	516,289	413,031	103,258
Contributions in Aid of Construction (CIAC)	41,826,782	1,982,589	1,652,158	(330,432)	(264,345)	(66,086)
Interest Capitalized	90,776,883	4,302,824	3,585,687	(717,137)	(573,710)	(143,427)
Other Basis Adjustments	4,165,700	197,454	164,545	(32,909)	(26,327)	(6,582)
Total Basis Adjustments	71,416,321	3,385,134	2,820,945	(564,189)	(451,351)	(112,838)
Tax versus Book (method/life) Depreciation - State	(1,950,817,132)	(92,468,732)	(77,057,277)	15,411,455	12,236,297	3,175,158
CCR ARO Ponds	(8,908,774)	(422,276)	(351,897)	70,379	70,379	
Total Protected Deferred Taxes	**(1,888,309,585)**	**(89,505,874)**	**(74,588,229)**	**14,917,646**	**11,855,325**	**3,062,321**
Annual Excess Deferred Amortization (Average Rate Assumption Method) - 2018 Estimate				453,389	355,382	98,007
Unprotected Deferred Taxes:						
2008 Wind Storm Damages	(6,081,253)	(288,251)	(240,209)	48,042	48,042	-
2009 Winter Storm Damages	(11,324,918)	(536,801)	(447,334)	89,467	89,125	342
2011 Summer Storm Damages	(402,606)	(19,084)	(15,903)	3,181	3,181	-
African American Venture Fund	113,693	5,389	4,491	(898)	(772)	(126)
Amortization Loss on Reacquired Debt	(15,557,928)	(737,446)	(614,538)	122,908	115,104	7,804
Bad Debts Reserves	1,126,694	53,405	44,504	(8,901)	(6,276)	(2,624)
CAFC - State	17,048,356	808,092	673,410	(134,682)	(93,670)	(41,012)
Capitalized Gas Inventory Costs	6,557,840	310,842	259,035	(51,807)	-	(51,807)
CMRG Regulatory Asset	(154,470)	(7,322)	(6,102)	1,220	1,220	-
Contingency Reserve	1,769,727	83,885	69,904	(13,981)	(13,981)	-
Demand Side Management	106,288	5,038	4,198	(840)	(92)	(747)
Emission Allowances	(144)	(7)	(6)	1	1	-
Environmental Cost Recovery - Current	(4,700,000)	(222,780)	(185,650)	37,130	37,130	-
FAC Under Recovery KY - Current	409,000	19,387	16,156	(3,231)	(3,231)	-
FAS 106 Cost Write-Off (Post Retirement)	52,392,675	2,483,413	2,069,511	(413,902)	(323,488)	(90,414)
FAS 112 Cost Write-Off (Post Employment)	3,942,900	186,893	155,745	(31,149)	(24,410)	(6,739)
FAS 87 Pensions	(187,629,512)	(8,893,639)	(7,411,366)	1,482,273	1,159,694	322,579
Gas Line Tracker Reg Liab - Current	1,907,100	90,397	75,330	(15,066)	-	(15,066)
Interest Rate Swaps	(1,166,565)	(55,295)	(46,079)	9,216	7,373	1,843
Line Pack - IRS Audit	174,919	8,291	6,909	(1,382)	-	(1,382)
Off-System Sales Tracker - Reg Liab	231,803	10,987	9,156	(1,831)	(1,831)	-
Performance Incentive	272,437	12,914	10,761	(2,152)	(1,722)	(430)
Plant Outage Normalization - Reg Asset	(3,043,316)	(144,253)	(120,211)	24,042	24,042	-
Prepaid Insurance	(1,684,012)	(79,822)	(66,518)	13,304	10,776	2,528
Purchased Gas Adjustment - Current	(3,801,686)	(180,200)	(150,167)	30,033	-	30,033
Refined Coal - KY - Reg Liab	722,646	34,253	28,545	(5,709)	(5,709)	-
Regulatory Expenses	(2,106,720)	(99,859)	(83,215)	16,643	13,050	3,593
Research Dev. & Demo Exp.	(753,306)	(35,707)	(29,756)	5,951	5,951	-
Swap Termination	(15,864,976)	(752,000)	(626,667)	125,333	125,333	-
Tenant Incentive Amortization	(796,573)	(37,758)	(31,465)	6,293	6,293	-
Unclaimed Checks	383,392	18,173	15,144	(3,029)	(2,423)	(606)
Vacation Pay	4,606,811	218,363	181,969	(36,394)	(27,638)	(8,755)
Workers Compensation	3,320,954	157,413	131,178	(26,236)	(20,039)	(6,197)
Total Unprotected Deferred Taxes	**(159,980,751)**	**(7,583,088)**	**(6,319,240)**	**1,263,848**	**1,121,030**	**142,818**
Annual Excess Deferred Amortization (15-Year Amortization period)				84,256	74,735	9,521

Kentucky Utilities Company
Louisville Gas and Electric Company
Exhibit 4

	LG&E	KU	Total
Estimate of Total KY Storm Costs			
Employee Labor	616,672	728,943	1,345,615
Contractor Labor	1,664,228	3,380,875	5,045,102
Materials	142,334	377,534	519,868
Miscellaneous	46,900	293,973	340,873
Transportation	61,635	101,402	163,037
Total	2,531,769	4,882,727	7,414,496
Estimated Amount Considered Normal Operations			
Employee Labor	(105,069)	(131,974)	(237,042)
Contractor Labor	(27,779)	(11,680)	(39,459)
Transportation	(8,449)	(15,799)	(24,248)
Total	(141,297)	(159,452)	(300,749)
Total Regulatory Asset Request			
Employee Labor	511,604	596,969	1,108,573
Contractor Labor	1,636,449	3,369,195	5,005,643
Materials	142,334	377,534	519,868
Miscellaneous	46,900	293,973	340,873
Transportation	53,186	85,604	138,789
Total	2,390,472	4,723,274	7,113,747

Kentucky Utilities Company
Louisville Gas and Electric Company
Exhibit 5

	Debit Account	Credit Account
Other Regulatory Assets	182.3	
Maintenance of Overhead Lines - Electric Transmission		571
Operations Supervision & Engineering - Electric Distribution		580
Overhead Line Expenses - Electric Distribution		583
Maintenance Supervision & Engineering - Electric Distribution		590
Maintenance of Overhead Lines - Electric Distribution		593
Maintenance of Underground Lines - Electric Distribution		594
Maintenance of Transformers - Electric Distribibuiton		595
Maintenance of Miscellaneous Distribution Plant - Electric Distribution		598
Administrative & General Salaries		920