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Income Before Income Taxes
686

603

553

Income Taxes
257

239

209

Net Income
$
429

$
364

$
344

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2016	2015	2014
Net income	$ 429	$ 364	$ 344
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of $0, $2, $4	—	(3)	(7)
Net actuarial gain (loss), net of tax of $18, $2, $32	(27)	(4)	(50)
Reclassification from AOCI - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0	(1)	—	(1)
Defined benefit plans:			
Prior service costs, net of tax of ($1), ($1), $0	2	1	1
Net actuarial (gain) loss, net of tax of ($1), ($3), $0	2	5	(1)
Total other comprehensive income (loss)	(24)	(1)	(58)
Comprehensive income	$ 405	$ 363	$ 286

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$429	$364	$344
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	404	382	354
Amortization	29	27	25
Defined benefit plans - expense	27	38	25
Deferred income taxes and investment tax credits	291	236	449
Other	—	2	16
Change in current assets and current liabilities			
Accounts receivable	(31)	24	(20)
Accounts payable	24	(58)	12
Accounts payable to affiliates	1	(2)	(1)
Unbilled revenues	(23)	20	13
Fuel, materials and supplies	2	6	(32)
Income tax receivable	1	135	(136)
Taxes payable	(7)	10	(3)
Accrued interest	—	9	—
Other	(6)	23	(1)
Other operating activities			
Defined benefit plans - funding	(85)	(70)	(45)
Settlement of interest rate swaps	(9)	(88)	—
Expenditures for asset retirement obligations	(26)	(7)	(5)
Other assets	2	(7)	(7)
Other liabilities	4	19	11
Net cash provided by (used in) operating activities	1,027	1,063	999
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(791)	(1,210)	(1,262)
Net decrease in notes receivable from affiliates	—	—	70
Other investing activities	1	7	1
Net cash provided by (used in) investing activities	(790)	(1,203)	(1,191)
Cash Flows from Financing Activities			
Net increase in notes payable with affiliates	109	13	41
Issuance of long-term note with affiliate	—	400	—
Issuance of long-term debt	221	1,050	—
Retirement of long-term debt	(246)	(900)	—
Net increase (decrease) in short-term debt	(80)	(310)	330
Debt issuance and credit facility costs	(3)	(10)	(5)
Distributions to member	(316)	(219)	(436)
Contributions from member	61	125	248
Net cash provided by (used in) financing activities	(254)	149	178
Net Increase (Decrease) in Cash and Cash Equivalents	(17)	9	(14)
Cash and Cash Equivalents at Beginning of Period	30	21	35
Cash and Cash Equivalents at End of Period	$13	$30	$21

Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$198	$163	$157
Income taxes - net	$(24)	$(139)	$(75)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$104	$150	$286

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$13	$30
Accounts receivable (less reserve: 2016, $24; 2015, $23)		
Customer	235	209
Other	17	17
Unbilled revenues	170	147
Fuel, materials and supplies	297	298
Prepayments	24	23
Regulatory assets	20	35
Other current assets	4	6
Total Current Assets	780	765
Property, Plant and Equipment		
Regulated utility plant	12,746	11,906
Less: accumulated depreciation - regulated utility plant	1,465	1,163
Regulated utility plant, net	11,281	10,743
Construction work in progress	317	660
Property, Plant and Equipment, net	11,598	11,403
Other Noncurrent Assets		
Regulatory assets	824	727
Goodwill	996	996
Other intangibles	95	123
Other noncurrent assets	78	76
Total Other Noncurrent Assets	1,993	1,922
Total Assets	$14,371	$14,090

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$185	$265
Long-term debt due within one year	194	25
Notes payable with affiliates	163	54
Accounts payable	251	266
Accounts payable to affiliates	6	5
Customer deposits	56	52
Taxes	39	46
Price risk management liabilities	4	5
Regulatory liabilities	18	32
Interest	32	32
Asset retirement obligations	60	50
Other current liabilities	119	135
Total Current Liabilities	1,127	967
Long-term Debt		
Long-term debt	4,471	4,663
Long-term debt to affiliate	400	400
Total Long-term Debt	4,871	5,063
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,735	1,463
Investment tax credits	132	128
Price risk management liabilities	27	42
Accrued pension obligations	350	296
Asset retirement obligations	373	485
Regulatory liabilities	899	923
Other deferred credits and noncurrent liabilities	190	206
Total Deferred Credits and Other Noncurrent Liabilities	3,706	3,543
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity	4,667	4,517
Total Liabilities and Equity	$14,371	$14,090

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Member's Equity
December 31, 2013	$ 4,150
Net income	344
Contributions from member	248
Distributions to member	(436)
Other comprehensive income (loss)	(58)
December 31, 2014	$ 4,248
Net income	$ 364
Contributions from member	125
Distributions to member	(219)
Other comprehensive income (loss)	(1)
December 31, 2015	$ 4,517
Net income	$ 429
Contributions from member	61
Distributions to member	(316)
Other comprehensive income (loss)	(24)
December 31, 2016	$ 4,667

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2016	2015	2014
Operating Revenues			
Retail and wholesale	$1,406	$1,407	$1,445
Electric revenue from affiliate	24	37	88
Total Operating Revenues	1,430	1,444	1,533
Operating Expenses			
Operation			
Fuel	301	329	404
Energy purchases	153	166	230
Energy purchases from affiliate	14	20	14
Other operation and maintenance	355	377	379
Depreciation	170	162	157
Taxes, other than income	32	28	25
Total Operating Expenses	1,025	1,082	1,209
Operating Income	405	362	324
Other Income (Expense) - net	(5)	(6)	(3)
Interest Expense	71	57	49
Income Before Income Taxes	329	299	272
Income Taxes	126	114	103
Net Income (a)	$203	$185	$169

(a) Net income equals comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$203	$185	$169
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	170	162	157
Amortization	14	11	12
Defined benefit plans - expense	8	12	9
Deferred income taxes and investment tax credits	147	126	118
Other	—	8	2
Change in current assets and current liabilities			
Accounts receivable	(22)	19	(12)
Accounts receivable from affiliates	(16)	11	(23)
Accounts payable	31	(29)	25
Accounts payable to affiliates	1	5	(4)
Unbilled revenues	(8)	9	9
Fuel, materials and supplies	8	3	(8)
Income tax receivable	4	70	(74)
Taxes payable	20	1	8
Accrued interest	—	5	—
Other	(7)	17	—
Other operating activities			
Defined benefit plans - funding	(46)	(26)	(13)
Settlement of interest rate swaps	(9)	(44)	—
Expenditures for asset retirement obligations	(18)	(6)	(4)
Other assets	—	11	(2)
Other liabilities	2	4	2
Net cash provided by (used in) operating activities	482	554	371
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(439)	(689)	(656)
Net cash provided by (used in) investing activities	(439)	(689)	(656)
Cash Flows from Financing Activities			
Issuance of long-term debt	125	550	—
Retirement of long-term debt	(150)	(250)	—
Net increase (decrease) in short-term debt	27	(122)	244
Debt issuance and credit facility costs	(2)	(5)	(2)
Payment of common stock dividends to parent	(128)	(119)	(112)
Contributions from parent	71	90	157
Net cash provided by (used in) financing activities	(57)	144	287
Net Increase (Decrease) in Cash and Cash Equivalents	(14)	9	2
Cash and Cash Equivalents at Beginning of Period	19	10	8
Cash and Cash Equivalents at End of Period	$5	$19	$10

Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	$65	$48	$46

Income taxes - net	$(43)	$(81)	$65
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$56	$97	$162

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$5	$19
Accounts receivable (less reserve: 2016, $2; 2015, $1)		
Customer	109	92
Other	11	11
Unbilled revenues	75	67
Accounts receivable from affiliates	28	12
Fuel, materials and supplies	143	151
Prepayments	12	5
Regulatory assets	9	16
Other current assets	1	2
Total Current Assets	393	375
Property, Plant and Equipment		
Regulated utility plant	5,357	4,804
Less: accumulated depreciation - regulated utility plant	498	404
Regulated utility plant, net	4,859	4,400
Construction work in progress	133	390
Property, Plant and Equipment, net	4,992	4,790
Other Noncurrent Assets		
Regulatory assets	450	424
Goodwill	389	389
Other intangibles	59	73
Other noncurrent assets	17	17
Total Other Noncurrent Assets	915	903
Total Assets	$6,300	$6,068

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$169	$142
Long-term debt due within one year	194	25
Accounts payable	148	157
Accounts payable to affiliates	26	25
Customer deposits	27	26
Taxes	40	20
Price risk management liabilities	4	5
Regulatory liabilities	5	13
Interest	11	11
Asset retirement obligations	41	25
Other current liabilities	36	39
Total Current Liabilities	701	488
Long-term Debt	1,423	1,617
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	974	829
Investment tax credits	36	35
Price risk management liabilities	27	42
Accrued pension obligations	53	56
Asset retirement obligations	104	149
Regulatory liabilities	419	431
Other deferred credits and noncurrent liabilities	87	91
Total Deferred Credits and Other Noncurrent Liabilities	1,700	1,633
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,611
Earnings reinvested	370	295
Total Equity	2,476	2,330
Total Liabilities and Equity	$6,300	$6,068

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2016 and December 31, 2015.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2013	21,294	$ 424	$ 1,364	$ 172	$1,960
Net income				169	169
Capital contributions from LKE			157		157
Cash dividends declared on common stock				(112)	(112)
December 31, 2014	21,294	$ 424	$ 1,521	$ 229	$2,174
Net income				185	185
Capital contributions from LKE			90		90
Cash dividends declared on common stock				(119)	(119)
December 31, 2015	21,294	$ 424	$ 1,611	$ 295	$2,330
Net income				203	203
Capital contributions from LKE			71		71
Cash dividends declared on common stock				(128)	(128)
December 31, 2016	21,294	$ 424	$ 1,682	$ 370	$2,476

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2016	2015	2014
Operating Revenues			
Retail and wholesale	$1,735	$1,708	$1,723
Electric revenue from affiliate	14	20	14
Total Operating Revenues	1,749	1,728	1,737
Operating Expenses			
Operation			
Fuel	490	534	561
Energy purchases	18	18	23
Energy purchases from affiliate	24	37	88
Other operation and maintenance	424	435	408
Depreciation	234	220	197
Taxes, other than income	30	29	27
Total Operating Expenses	1,220	1,273	1,304
Operating Income	529	455	433
Other Income (Expense) - net	(5)	1	(1)
Interest Expense	96	82	77
Income Before Income Taxes	428	374	355
Income Taxes	163	140	135
Net Income (a)	$265	$234	$220

(a) Net income approximates comprehensive income.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$265	$234	$220
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	234	220	197
Amortization	14	13	11
Defined benefit plans - expense	5	10	5
Deferred income taxes and investment tax credits	126	160	224
Other	(1)	(5)	13
Change in current assets and current liabilities			
Accounts receivable	(8)	5	(9)
Accounts receivable from affiliates	1	(1)	—
Accounts payable	(10)	(32)	(10)
Accounts payable to affiliates	15	(10)	22
Unbilled revenues	(15)	11	4
Fuel, materials and supplies	(6)	3	(25)
Income tax receivable	—	59	(60)
Taxes payable	25	6	(19)
Accrued interest	—	5	—
Other	(3)	4	(5)
Other operating activities			
Defined benefit plans - funding	(20)	(21)	(5)
Settlement of interest rate swaps	—	(44)	—
Expenditures for asset retirement obligations	(8)	(1)	(1)
Other assets	(6)	(11)	(4)
Other liabilities	(2)	3	8
Net cash provided by (used in) operating activities	606	608	566
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(350)	(519)	(604)
Other investing activities	1	7	1
Net cash provided by (used in) investing activities	(349)	(512)	(603)
Cash Flows from Financing Activities			
Issuance of long-term debt	96	500	—
Retirement of long-term debt	(96)	(250)	—
Net increase (decrease) in short-term debt	(32)	(188)	86
Debt issuance and credit facility costs	(1)	(5)	(2)
Payment of common stock dividends to parent	(248)	(153)	(148)
Contributions from parent	20	—	91
Net cash provided by (used in) financing activities	(261)	(96)	27
Net Increase (Decrease) in Cash and Cash Equivalents	(4)	—	(10)
Cash and Cash Equivalents at Beginning of Period	11	11	21
Cash and Cash Equivalents at End of Period	$7	$11	$11

Supplemental Disclosures of Cash Flow Information
Cash paid (received) during the period for:

Interest - net of amount capitalized	$89	$75	$73
Income taxes - net	$13	$(84)	$—
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$47	$53	$124

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$7	$11
Accounts receivable (less reserve: 2016, $2; 2015, $2)		
Customer	126	117
Other	5	9
Unbilled revenues	95	80
Accounts receivable from affiliates	—	1
Fuel, materials and supplies	154	147
Prepayments	12	8
Regulatory assets	11	19
Other current assets	3	4
Total Current Assets	413	396
Property, Plant and Equipment		
Regulated utility plant	7,382	7,099
Less: accumulated depreciation - regulated utility plant	965	759
Regulated utility plant, net	6,417	6,340
Construction work in progress	181	267
Property, Plant and Equipment, net	6,598	6,607
Other Noncurrent Assets		
Regulatory assets	374	303
Goodwill	607	607
Other intangibles	36	50
Other noncurrent assets	57	48
Total Other Noncurrent Assets	1,074	1,008
Total Assets	$8,085	$8,011

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2016	2015
Liabilities and Equity		
Current Liabilities		
Short-term debt	$16	$48
Accounts payable	78	88
Accounts payable to affiliates	56	39
Customer deposits	29	26
Taxes	45	20
Regulatory liabilities	13	19
Interest	16	16
Asset retirement obligations	19	25
Other current liabilities	36	44
Total Current Liabilities	308	325
Long-term Debt	2,327	2,326
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,170	1,046
Investment tax credits	96	93
Accrued pension obligations	62	46
Asset retirement obligations	269	336
Regulatory liabilities	480	492
Other deferred credits and noncurrent liabilities	50	60
Total Deferred Credits and Other Noncurrent Liabilities	2,127	2,073
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,596
Accumulated other comprehensive loss	(1)	—
Earnings reinvested	400	383
Total Equity	3,323	3,287
Total Liabilities and Equity	$8,085	$8,011

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2016 and December 31, 2015.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2013	37,818	$ 308	$ 2,505	$ 230	$ 1	$3,044
Net income				220		220
Capital contributions from LKE			91			91
Cash dividends declared on common stock				(148)		(148)
Other comprehensive income (loss)					(1)	(1)
December 31, 2014	37,818	$ 308	$ 2,596	$ 302	$ —	$3,206
Net income				234		234
Cash dividends declared on common stock				(153)		(153)
December 31, 2015	37,818	$ 308	$ 2,596	$ 383	$ —	$3,287
Net income				265		265
Capital contributions from LKE			20			20
Cash dividends declared on common stock				(248)		(248)
Other comprehensive income (loss)					(1)	(1)
December 31, 2016	37,818	$ 308	$ 2,616	$ 400	$ (1)	$3,323

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

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COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(All Registrants)

General

Capitalized terms and abbreviations appearing in the combined notes to financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia (under the Old Dominion Power name) and in Tennessee under the KU name.

(PPL)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income for the years 2015 and 2014 includes the activities of PPL Energy Supply, substantially representing PPL's former Supply segment, which was spun off and distributed to PPL shareowners on June 1, 2015. In addition, the Statements of Cash Flows for the same periods separately report the cash flows of the discontinued operations. See Note 8 for additional information.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

(All Registrants)

Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Changes in Classification

The classification of certain amounts in the 2015 and 2014 financial statements have been changed to conform to the current presentation. These reclassifications did not affect the Registrants' net income or equity.

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Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to change in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities." See Note 17 for additional information.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. See Note 17 for additional information. The accounting department provides the treasury department with guidelines on appropriate accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.

- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.

- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.

- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.

- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

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(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	2016	2015	2014
Domestic electric and gas revenues (a)	$5,297	$5,239	$5,209
U.K. operating revenues (b)	2,207	2,410	2,621
Domestic - other	13	20	22
Total	$7,517	$7,669	$7,852

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.
(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties, adjustments for over or under-recovery from prior periods and adjustments related to the DPCR4 line loss close out.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition and contingency accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 will be adjusted during the price control period. The most significant of those adjustments are:

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set in 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue.

Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

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- Annual Iteration Process - The RIIO-ED1 price control period also includes an Annual Iteration Process (AIP). This will allow future base demand revenues agreed with the regulator as part of the price control review to be updated during the price control period for financial adjustments including tax, pensions and cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, under applicable GAAP, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. Based on applicable GAAP, incentive revenues are not recorded as assets and are included in revenues when they are billed to customers.

- DPCR4 Line Loss Adjustment - For regulatory years 2015/16 through 2018/19 allowed revenue will also be reduced to reflect Ofgem's final decision on the DPCR4 line loss incentives and penalties mechanism. WPD has a liability recorded related to this future revenue reduction and, therefore, this will not impact future earnings. See Note 6 for additional information.

- Correction Factor - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 will be refunded/recovered on a two year lag (previously one year). Therefore the 2014/15 over/under-recovery adjustment will occur in the 2016/17 regulatory year.

Under applicable GAAP, WPD does not record a receivable for under-recoveries, but does record a liability for over-recoveries. K-factor is measured as of the end of the regulatory year, March 31. While WPD estimates over-recoveries and records a liability when it is probable that there will be an over-recovered position at the end of the regulatory-year, weather-related volume changes and other factors such as sales mix can affect the over or under-recovery between the end of PPL's calendar year and the end of the regulatory year.

Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

(PPL and PPL Electric)

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During 2016, 2015 and 2014, PPL Electric purchased $1.4 billion, $1.3 billion and $1.1 billion of accounts receivable from unaffiliated third parties. During 2015 and 2014, PPL Electric purchased $146 million and $336 million of accounts receivable from PPL EnergyPlus. PPL Electric's purchases from PPL EnergyPlus for 2015 include purchases through May 31, 2015, which is the period during which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from unaffiliated third parties.

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Allowance for Doubtful Accounts

(All Registrants)

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

		Additions			
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions (a)	Balance at End of Period
PPL					
2016	$ 41	$ 44	$ —	$ 31	$ 54
2015	44	49	(2)	50	41
2014	43	49	—	48	44
PPL Electric					
2016	$ 16	$ 35	$ —	$ 23	$ 28
2015	17	39	—	40	16
2014	18	34	—	35	17
LKE					
2016	$ 23	$ 8	$ —	$ 7	$ 24
2015	25	9	(2)	9	23
2014	22	14	—	11	25
LG&E					
2016	$ 1	$ 2	$ 1	$ 2	$ 2
2015	2	2	—	3	1
2014	2	5	(1)	4	2
KU					
2016	$ 2	$ 4	$ —	$ 4	$ 2
2015	2	5	—	5	2
2014	4	8	(3)	7	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(PPL and PPL Electric)

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

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At December 31, the balances of restricted cash and cash equivalents included the following:

	PPL		PPL Electric	
	2016	2015	2016	2015
Low carbon network fund (a)	$17	$ 22	$ —	$ —
Other	9	11	2	2
Total	$26	$ 33	$ 2	$ 2

(a) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

(All Registrants)

Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.

- Level 3 - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

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(PPL, LKE, LG&E and KU)

Cost Method Investment

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are conditionally responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. See Notes 6, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 6 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was as follows:

	PPL
2016	$ 11
2015	11
2014	16

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Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that
was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2016	2015	2014
PPL	2.73%	2.57%	2.92%
PPL Electric	2.63%	2.46%	2.46%
LKE	3.69%	3.69%	3.80%
LG&E	3.58%	3.65%	4.05%
KU	3.77%	3.71%	3.63%

(PPL)

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD extended the weighted average useful lives of these assets to 69 years from 55 years for GAAP reporting of depreciation expense. For 2015, this change in useful lives resulted in lower depreciation expense compared with 2014 of $84 million ($66 million after-tax or $0.10 per share).

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

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PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill in the fourth quarter of 2016. These evaluations considered the excess of fair value over the carrying value of each reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2015, and the relevant events and circumstances that occurred since those tests were performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying value. As such, the two-step quantitative impairment test was not performed and no impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the

Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligations. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 19 for additional information on AROs.

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Compensation and Benefits

Defined Benefits (All Registrants)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 6 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

Discount Rate Change for U.K. Pension Plans (PPL)

In selecting the discount rate for its U.K. pension plans, WPD historically used a single weighted-average discount rate in the calculation of net periodic defined benefit cost. WPD began using individual spot rates to measure service cost and interest cost for the calculation of net periodic defined benefit cost in 2016. In 2016, this change in discount rate resulted in lower net periodic defined benefit costs recognized on PPL's Statement of Income of $43 million ($34 million after-tax or $0.05 per share).

See Note 11 for additional information.

Stock-Based Compensation (PPL, PPL Electric and LKE)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine

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the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes including management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record U.S. taxes on WPD's undistributed earnings.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

(PPL Electric, LKE, LG&E and KU)

The income tax provision for PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2016	2015
PPL Electric	$13	$56
LKE	1	(10)
LG&E	(18)	4
KU	(29)	(5)

Taxes, Other Than Income (All Registrants)

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

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Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015	2016	2015
Fuel	$158	$168	$158	$168	$60	$71	$98	$97
Natural gas stored underground (a)	42	42	42	42	42	42	—	—
Materials and supplies	156	147	97	88	41	38	56	50
Total	$356	$357	$297	$298	$143	$151	$154	$147

(a) Natural gas stored underground is primarily held to serve retail customers.

Guarantees (All Registrants)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL and PPL Electric)

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

New Accounting Guidance Adopted (All Registrants)

Accounting for Stock-Based Compensation

Effective January 1, 2016, the Registrants adopted accounting guidance to simplify the accounting for share-based payment transactions. The guidance requires excess tax benefits and tax deficiencies to be recorded as income tax benefit or expense on the statement of income, eliminates the requirement that excess tax benefits be realized before companies can recognize them and changes the threshold for statutory income tax withholding requirements to qualify for equity classification to the maximum statutory tax rates in the applicable jurisdictions. This guidance also changes the classification of excess tax benefits to an operating activity and employee taxes paid when shares are withheld to satisfy the employer's statutory income tax withholding obligation to a financing activity on the statement of cash flows and allows entities to make a policy election to either estimate forfeitures or recognize them when they occur. The adoption of this guidance had the following impacts:

- Using the required prospective method of transition, for the year ended December 31, 2016, PPL recorded tax benefits of $10 million ($0.01 per share), and PPL Electric recorded tax benefits of $6 million, related to excess tax benefits for awards that were exercised and vested. These amounts were recorded to "Income Taxes" on the Statements of Income and "Deferred income taxes" on the Balance Sheets. The impact on LKE was not significant.

- PPL elected to use the prospective method of transition for classifying excess tax benefits as an Operating activity on the Statement of Cash Flows. The amounts classified as Financing activities in the prior periods were not significant.

- Upon adoption, using the required modified retrospective method of transition, PPL recorded a cumulative effect adjustment of $7 million to increase "Earnings reinvested" and decrease "Deferred income taxes" on the Balance Sheet related to prior period unrecognized excess tax benefits.

- PPL has historically presented employee taxes paid for net settled awards as a Financing activity on the Statement of Cash Flows. Therefore, there is no transition impact for this requirement.

- PPL has elected to recognize forfeitures when they occur. Due to past experience of insignificant forfeitures, there is no transition impact of this policy election.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs.

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs, which is presented to reconcile segment information to PPL's consolidated results.

On June 1, 2015, PPL completed the spinoff of PPL Energy Supply, which substantially represented PPL's Supply segment. As a result of this transaction, PPL no longer has a Supply segment. See Note 8 for additional information.

Financial data for the segments for the years ended December 31 are as follows:

	2016	2015	2014
Income Statement Data			
Operating Revenues from external customers (a)			
U.K. Regulated	$2,207	$2,410	$2,621
Kentucky Regulated	3,141	3,115	3,168
Pennsylvania Regulated	2,156	2,124	2,044
Corporate and Other	13	20	19
Total	$7,517	$7,669	$7,852

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	2016	2015	2014
Depreciation			
U.K. Regulated	$233	$242	$337
Kentucky Regulated	404	382	354
Pennsylvania Regulated	253	214	185
Corporate and Other	36	45	47
Total	$926	$883	$923
Amortization (b)			
U.K. Regulated	$16	$6	$17
Kentucky Regulated	29	27	25
Pennsylvania Regulated	32	26	19
Corporate and Other	3	—	4
Total	$80	$59	$65
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	$13	$(88)	$(199)
Kentucky Regulated	6	11	12
Total	$19	$(77)	$(187)
Interest Expense			
U.K. Regulated	$402	$417	$461
Kentucky Regulated	260	232	219
Pennsylvania Regulated	129	130	122
Corporate and Other	97	92	41
Total	$888	$871	$843
Income from Continuing Operations Before Income Taxes			
U.K. Regulated	$1,479	$1,249	$1,311
Kentucky Regulated	640	547	501
Pennsylvania Regulated	550	416	423
Corporate and Other (d)	(119)	(144)	(106)
Total	$2,550	$2,068	$2,129
Income Taxes (e)			
U.K. Regulated	$233	$128	$329
Kentucky Regulated	242	221	189
Pennsylvania Regulated	212	164	160
Corporate and Other (d)	(39)	(48)	14
Total	$648	$465	$692
Deferred income taxes and investment tax credits (f)			
U.K. Regulated	$31	$45	$94
Kentucky Regulated	291	236	449
Pennsylvania Regulated	221	220	87
Corporate and Other (d)	17	(73)	36
Total	$560	$428	$666

Net Income			
U.K. Regulated	$1,246	$1,121	$982
Kentucky Regulated	398	326	312
Pennsylvania Regulated	338	252	263
Corporate and Other (d)	(80)	(96)	(120)
Discontinued Operations (g)	—	(921)	300
Total	$1,902	$682	$1,737

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	2016	2015	2014
Cash Flow Data			
Expenditures for long-lived assets			
U.K. Regulated	$1,031	$1,242	$1,438
Kentucky Regulated	791	1,210	1,262
Pennsylvania Regulated	1,134	1,107	957
Corporate and Other	1	11	66
Total	$2,957	$3,570	$3,723

	As of December 31,	
	2016	2015
Balance Sheet Data		
Total Assets		
U.K. Regulated (h)	$14,537	$16,669
Kentucky Regulated	14,037	13,756
Pennsylvania Regulated	9,426	8,511
Corporate and Other (i)	315	365
Total	$38,315	$39,301

Geographic data for the years ended December 31 are as follows:

	2016	2015	2014
Geographic Data			
Revenues from external customers			
U.K.	$2,207	$2,410	$2,621
U.S.	5,310	5,259	5,231
Total	$7,517	$7,669	$7,852

	As of December 31,	
	2016	2015
Long-Lived Assets		
U.K. (h)	$11,177	$12,487
U.S.	19,595	18,569
Total	$30,772	$31,056

(a) See Note 1 for additional information on Operating Revenues.

(b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.

(c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.

(d) 2015 and 2014 include certain costs related to the spinoff of PPL Energy Supply, including deferred income tax expense, transition costs and separation benefits for PPL Services employees. See Note 8 for additional information.

(e) Represents both current and deferred income taxes, including investment tax credits.

(f) Represents a non-cash expense item that is also included in "Income Taxes."

(g) 2015 includes an $879 million loss on the spinoff of PPL Energy Supply and five months of Supply segment earnings. 2014 includes a gain of $237 million ($137 million after-tax) on the sale of the Montana hydroelectric generating facilities. See Note 8 for additional information on these transactions.

(h) Includes $10.8 billion and $12.2 billion of net PP&E as of December 31, 2016 and December 31, 2015. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(i) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

(PPL Electric, LKE, LG&E and KU)

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

3. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2016, 2015 or 2014.

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(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2016, 2015 or 2014.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2016, 2015 or 2014.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2016, 2015 or 2014.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method or If-Converted Method, as applicable. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31, used in the EPS calculation are:

	2016	2015	2014
Income (Numerator)			
Income from continuing operations after income taxes	$ 1,902	$ 1,603	$ 1,437
Less amounts allocated to participating securities	6	6	7
Income from continuing operations after income taxes available to PPL common shareowners - Basic	1,896	1,597	1,430
Plus interest charges (net of tax) related to Equity Units (a)	—	—	9
Income from continuing operations after income taxes available to PPL common shareowners - Diluted	$ 1,896	$ 1,597	$ 1,439
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners - Basic and Diluted	$ —	$ (921)	$ 300
Net income	$ 1,902	$ 682	$ 1,737
Less amounts allocated to participating securities	6	2	9
Net income available to PPL common shareowners - Basic	1,896	680	1,728
Plus interest charges (net of tax) related to Equity Units (a)	—	—	9
Net income available to PPL common shareowners - Diluted	$ 1,896	$ 680	$ 1,737

Shares of Common Stock (Denominator)

Weighted-average shares - Basic EPS	677,592	669,814	653,504
Add incremental non-participating securities:			
Share-based payment awards (b)	2,854	2,772	1,910
Equity Units (a)	—	—	10,559
Weighted-average shares - Diluted EPS	680,446	672,586	665,973

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	2016	2015	2014
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$2.80	$2.38	$2.19
Income (loss) from discontinued operations (net of income taxes)	—	(1.37)	0.45
Net Income	$2.80	$1.01	$2.64
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$2.79	$2.37	$2.16
Income (loss) from discontinued operations (net of income taxes)	—	(1.36)	0.45
Net Income	$2.79	$1.01	$2.61

(a) In 2014, the If-Converted Method was applied to the Equity Units prior to settlement. See Note 7 for additional information on the Equity Units, including the issuance of PPL common stock to settle the Purchase contracts.
(b) The Treasury Stock Method was applied to non-participating share-based payment awards.

For the year ended December 31, PPL issued common stock related to stock-based compensation plans and DRIP as follows (in thousands):

	2016
Stock-based compensation plans (a)	3,224
DRIP	1,562

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under ATM Program.

For the years ended December 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive:

	2016	2015	2014
Stock options	696	1,087	1,816
Performance units	176	36	5
Restricted stock units	—	—	31

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following:

	2016	2015	2014
Domestic income	$1,463	$968	$922
Foreign income	1,087	1,100	1,207
Total	$2,550	$2,068	$2,129

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

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	2016	2015
Deferred Tax Assets		
Deferred investment tax credits	$51	$50
Regulatory liabilities	94	123
Accrued pension costs	250	217
Federal loss carryforwards	565	587
State loss carryforwards	326	319
Federal and state tax credit carryforwards	256	201
Foreign capital loss carryforwards	302	387
Foreign loss carryforwards	3	4
Foreign - pensions	41	171
Foreign - regulatory obligations	6	12
Foreign - other	5	8
Contributions in aid of construction	141	139
Domestic - other	188	209
Unrealized losses on qualifying derivatives	20	15
Valuation allowances (a)	(593)	(662)
Total deferred tax assets	1,655	1,780
Deferred Tax Liabilities		
Domestic plant - net	4,325	3,875
Taxes recoverable through future rates	170	162
Regulatory assets	343	332
Reacquired debt costs	25	28
Foreign plant - net	640	777
Domestic - other	14	24
Total deferred tax liabilities	5,517	5,198
Net deferred tax liability	$3,862	$3,418

(a) Includes $77 million of deferred tax assets related to state loss carryforwards and related valuation allowances previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, $27 million and $22 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2016 and 2015.

At December 31, 2016, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	$1,583	$ 554	$ —	2029-2035
Federal charitable contributions	28	11	—	2020-2021
State net operating losses	5,387	325	(269)	2017-2036
State charitable contributions	12	1	—	2017-2021
Foreign net operating losses	17	3	(3)	Indefinite
Foreign capital losses	1,783	302	(302)	Indefinite

Credit carryforwards			
Federal investment tax credit	133	—	2025-2036
Federal alternative minimum tax credit	30	—	Indefinite
Federal foreign tax credits	62	(3)	2024-2025
Federal - other	30	(11)	2017-2036
State - other	1	—	Indefinite

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

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	Balance at Beginning of Period	Additions Charged to Income	Additions Charged to Other Accounts		Deductions		Balance at End of Period
2016	$ 662	$ 17	$ 2		$ 88	(a)	$ 593
2015	622	24	77	(b)	61	(a)	662
2014	585	57	6		26		622

(a) The reductions of the U.K. statutory income tax rates in 2016 and 2015 resulted in $19 million and $44 million in reductions in the deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Acts 2016 and 2015. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately $65 million due to the effect of foreign currency exchange rates.

(b) Valuation allowance related to the deferred tax assets previously reflected on the PPL Energy Supply Segment. The deferred tax assets and related valuation allowance remained with PPL after the spinoff.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD as management has determined that the earnings are indefinitely reinvested for accounting purposes. Current year distributions from WPD to the U.S. are sourced from a portion of current year's earnings of the WPD group. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amounts considered indefinitely reinvested at December 31, 2016 and 2015 were $5.5 billion and $4.6 billion. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	$(14)	$(26)	$18
Current - State	21	25	26
Current - Foreign	80	89	152
Total Current Expense	87	88	196
Deferred - Federal	385	699	299
Deferred - State	89	68	120
Deferred - Foreign	86	41	96
Total Deferred Expense, excluding operating loss carryforwards	560	808	515
Amortization of investment tax credit	(3)	(4)	(5)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal (a)	25	(396)	8
Deferred - State	(21)	(31)	(22)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	4	(427)	(14)
Total income taxes from continuing operations	$648	$465	$692

Total income tax expense - Federal	$393	$273	$320
Total income tax expense - State	89	62	124
Total income tax expense - Foreign	166	130	248
Total income taxes from continuing operations	$648	$465	$692

(a) Increase in Federal loss carryforwards for 2015 primarily relates to the extension of bonus depreciation and the impact of bonus depreciation related to provision to return adjustments.

In the table above, the following income tax expense (benefits) are excluded from income taxes from continuing operations:

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	2016	2015	2014
Discontinued operations - PPL Energy Supply Segment	$—	$(30)	$198
Stock-based compensation recorded to Additional Paid-in Capital	—	—	(4)
Stock-based compensation recorded to Earnings Reinvested	(7)	—	—
Other comprehensive income	(6)	(2)	(190)
Valuation allowance on state deferred taxes recorded to other comprehensive income	1	(4)	—
Total	$(12)	$(36)	$4

	2016	2015	2014
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$893	$724	$745
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	46	31	28
Valuation allowance adjustments (a)	16	24	55
Impact of lower U.K. income tax rates (b)	(177)	(176)	(180)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	(42)	8	63
Federal and state tax reserves adjustments (d)	—	(22)	(1)
Impact of the U.K. Finance Acts on deferred tax balances (b)	(49)	(91)	(1)
Depreciation not normalized	(10)	(5)	(7)
Interest benefit on U.K. financing entities	(17)	(20)	(5)
Stock-based compensation (e)	(10)	—	—
Other	(2)	(8)	(5)
Total increase (decrease)	(245)	(259)	(53)
Total income taxes from continuing operations	$648	$465	$692
Effective income tax rate	25.4 %	22.5 %	32.5 %

(a) During 2016, PPL recorded deferred tax expense for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

During 2015, PPL recorded $24 million of deferred income tax expense related to deferred tax valuation allowances. PPL recorded state deferred income tax expense of $12 million primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized and $12 million of federal deferred income tax expense primarily related to federal tax credit carryforwards that are expected to expire as a result of lower future taxable earnings due to the extension of bonus depreciation.
As a result of the PPL Energy Supply spinoff announcement, PPL recorded $50 million of deferred income tax expense during 2014, to adjust the valuation allowance on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply. See Note 8 for additional information on the spinoff.

(b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2016.

The U.K. Finance Act 2015, enacted in November 2015, reduced the U.K. statutory income tax rate from 20% to 19% effective April 1, 2017 and from 19% to 18% effective April 1, 2020. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2015, related to both rate decreases.

(c) During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the Company's most recent business plan.

During 2015, PPL recorded lower income taxes primarily attributable to a decrease in taxable dividends.
During 2014, PPL recorded $47 million of income tax expense primarily attributable to taxable dividends.

(d) During 2015, PPL recorded a $12 million tax benefit related to the settlement of the IRS audit for the tax years 1998-2011.

(e) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
State gross receipts (a)	$100	$89	$102
Foreign property	135	148	157
Domestic Other	66	62	58
Total	$301	$299	$317

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

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(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulated liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Accrued pension costs	$107	$92
Contributions in aid of construction	112	111
Regulatory liabilities	34	56
State loss carryforwards	22	27
Federal loss carryforwards	147	146
Other	81	87
Total deferred tax assets	503	519
Deferred Tax Liabilities		
Electric utility plant - net	2,001	1,803
Taxes recoverable through future rates	141	135
Reacquired debt costs	15	18
Regulatory assets	240	213
Other	5	13
Total deferred tax liabilities	2,402	2,182
Net deferred tax liability	$1,899	$1,663

At December 31, 2016, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards			
Federal net operating losses	$411	$ 144	2031-2035
Federal charitable contributions	5	2	2020-2021
State net operating losses (a)	327	21	2030-2032
State charitable contributions	11	1	2017-2021

(a) An immaterial amount of valuation allowances has been recorded against the deferred tax asset for state contributions.

Credit carryforwards were insignificant at December 31, 2016.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	$(29)	$(80)	$ 60

Current - State	19	23	15
Total Current Expense (Benefit)	(10)	(57)	75
Deferred - Federal	193	287	70
Deferred - State	29	12	16
Total Deferred Expense, excluding operating loss carryforwards	222	299	86

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	2016	2015	2014
Amortization of investment tax credit	—	—	(1)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	(75)	—
Deferred - State	—	(3)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	(78)	—
Total income tax expense	$212	$164	$160
Total income tax expense - Federal	$164	$132	$129
Total income tax expense - State	48	32	31
Total income tax expense	$212	$164	$160

	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$193	$146	$148
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	36	25	22
Depreciation not normalized	(8)	(4)	(6)
Stock-based compensation (a)	(6)	—	—
Other	(3)	(3)	(4)
Total increase (decrease)	19	18	12
Total income tax expense	$212	$164	$160
Effective income tax rate	38.4 %	39.4 %	37.8 %

(a) During 2016, PPL recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
State gross receipts (a)	$100	$ 89	$102
Property and other	5	5	5
Total	$105	$ 94	$107

(a) The decrease in 2015 was primarily due to the settlement of a 2011 gross receipts tax audit resulting in the reversal of $17 million of previously recognized reserves.

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	$248	$280
State loss carryforwards	35	35
Tax credit carryforwards	186	181
Contributions in aid of construction	29	29
Regulatory liabilities	60	66
Accrued pension costs	58	53
Income taxes due to customers	15	17
Deferred investment tax credits	51	50
Derivative liability	12	18
Other	49	55
Valuation allowances	(11)	(12)
Total deferred tax assets	732	772
Deferred Tax Liabilities		
Plant - net	2,352	2,105
Regulatory assets	102	119
Other	13	11
Total deferred tax liabilities	2,467	2,235
Net deferred tax liability	$1,735	$1,463

At December 31, 2016, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	$709	$ 248	$ —	2029-2035
Federal contribution carryforwards	11	4	—	2020-2021
State net operating losses	907	35	—	2028-2036
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit		27	—	Indefinite
Federal - other		26	(11)	2017-2036
State - other		1	—	Indefinite

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2016	$ 12	$ —	$ 1 (a)	$ 11
2015	—	12 (b)	—	12
2014	4	—	4 (c)	—

(a) Federal tax credit expiring in 2016.

(b) Federal tax credits expiring in 2016 through 2020 that are more likely than not to expire before being utilized.
(c) Primarily related to the expiration of state capital loss carryforwards.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of

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"Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	$(36)	$2	$(247)
Current - State	1	1	8
Total Current Expense (Benefit)	(35)	3	(239)
Deferred - Federal	248	405	437
Deferred - State	38	32	23
Total Deferred Expense, excluding benefits of operating loss carryforwards	286	437	460
Amortization of investment tax credit - Federal	(3)	(3)	(4)
Tax benefit of operating loss carryforwards			
Deferred - Federal	10	(198)	(8)
Deferred - State	(1)	—	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	9	(198)	(8)
Total income tax expense from continuing operations (a)	$257	$239	$209
Total income tax expense - Federal	$219	$206	$178
Total income tax expense - State	38	33	31
Total income tax expense from continuing operations (a)	$257	$239	$209

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of less than $1 million in 2016, 2015 and 2014. Also, excludes deferred federal and state tax expense (benefit) recorded to OCI of $(16) million in 2016, less than $(1) million in 2015 and $(36) million in 2014.

	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$240	$211	$194
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	25	22	20
Amortization of investment tax credit	(3)	(3)	(4)
Valuation allowance adjustment (a)	—	12	—
Stock-based compensation (b)	(3)	—	—
Other	(2)	(3)	(1)
Total increase	17	28	15
Total income tax expense	$257	$239	$209
Effective income tax rate	37.5 %	39.6 %	37.8 %

(a) Represents a valuation allowance against tax credits expiring through 2020 that are more likely than not to expire before being utilized.
(b) During 2016, LKE recorded lower income tax expense related to the application of new stock-based compensation accounting guidance. See Note 1 for additional information.

	2016	2015	2014
Taxes, other than income			
Property and other	$ 62	$ 57	$ 52
Total	$ 62	$ 57	$ 52

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	$ 80	$ 76
Contributions in aid of constructions	18	18
Regulatory liabilities	34	38
Deferred investment tax credits	14	13
Income taxes due to customers	17	17
Derivative liability	12	18
Other	17	15
Total deferred tax assets	192	195
Deferred Tax Liabilities		
Plant - net	1,058	914
Regulatory assets	65	75
Accrued pension costs	35	28
Other	8	7
Total deferred tax liabilities	1,166	1,024
Net deferred tax liability	$ 974	$ 829

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2016, LG&E had $229 million of federal net operating loss carryforwards that expire in 2035, $7 million of federal contribution carryforwards that expire from 2020 to 2021 and $5 million of federal credit carryforwards that expire from 2034 to 2036.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	$ (22)	$ (15)	$ (25)
Current - State	1	3	10
Total Current Benefit	(21)	(12)	(15)
Deferred - Federal	134	190	114
Deferred - State	18	13	6
Total Deferred Expense, excluding benefits of operating loss carryforwards	152	203	120
Amortization of investment tax credit - Federal	(1)	(1)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(4)	(76)	—
Total Tax Benefit of Operating Loss Carryforwards	(4)	(76)	—
Total income tax expense	$ 126	$ 114	$ 103
Total income tax expense - Federal	$ 107	$ 98	$ 87
Total income tax expense - State	19	16	16
Total income tax expense	$ 126	$ 114	$ 103

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	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$115	$105	$95
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	11	10
Amortization of investment tax credit	(1)	(1)	(2)
Other	—	(1)	—
Total increase	11	9	8
Total income tax expense	$126	$114	$103
Effective income tax rate	38.3 %	38.1 %	37.9 %

	2016	2015	2014
Taxes, other than income			
Property and other	$ 32	$ 28	$ 25
Total	$ 32	$ 28	$ 25

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2016	2015
Deferred Tax Assets		
Federal loss carryforwards	$79	$97
Contributions in aid of construction	11	11
Regulatory liabilities	26	28
Deferred investment tax credits	37	36
Other	11	7
Total deferred tax assets	164	179
Deferred Tax Liabilities		
Plant - net	1,280	1,175
Regulatory assets	37	44
Accrued pension costs	12	4
Other	5	2
Total deferred tax liabilities	1,334	1,225
Net deferred tax liability	$1,170	$1,046

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2016, KU had $227 million of federal net operating loss carryforwards that expire in 2035 and $5 million of federal credit carryforwards that expire from 2034 to 2036.

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Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2016	2015	2014
Income Tax Expense (Benefit)			
Current - Federal	$31	$(21)	$(95)
Current - State	5	1	6
Total Current Expense (Benefit)	36	(20)	(89)
Deferred - Federal	131	240	212
Deferred - State	19	19	14
Total Deferred Expense, excluding benefits of operating loss carryforwards	150	259	226
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(21)	(97)	—
Total Tax Benefit of Operating Loss Carryforwards	(21)	(97)	—
Total income tax expense (a)	$163	$140	$135
Total income tax expense - Federal	$139	$120	$115
Total income tax expense - State	24	20	20
Total income tax expense (a)	$163	$140	$135

(a) Excludes deferred federal and state tax expense (benefit) recorded to OCI of less than $(1) million in 2016, 2015 and 2014.

	2016	2015	2014
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$150	$131	$124
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	16	13	13
Amortization of investment tax credit	(2)	(2)	(2)
Other	(1)	(2)	—
Total increase	13	9	11
Total income tax expense	$163	$140	$135
Effective income tax rate	38.1 %	37.4 %	38.0 %

	2016	2015	2014
Taxes, other than income			
Property and other	$ 30	$ 29	$ 27
Total	$ 30	$ 29	$ 27

Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2016, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

PPL	PPL Electric	LKE	LG&E	KU

U.S. (federal)	2012 and prior	2012 and prior	2012 and prior	2012 and prior	2012 and prior
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2011 and prior		2011 and prior	2011 and prior	2011 and prior
U.K. (foreign)	2013 and prior				

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Other (PPL)

In 2015, PPL recorded a tax benefit of $24 million, related to the settlement of the IRS audit for tax years 1998-2011. Of this amount, $12 million is reflected in continuing operations. PPL finalized the settlement of interest in 2016 and recorded an additional $3 million tax benefit.

6. Utility Rate Regulation

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date.

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates. Therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates. Therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

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(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31,:

	PPL		PPL Electric	
	2016	2015	2016	2015
Current Regulatory Assets:				
Environmental cost recovery	$6	$24	$—	$—
Generation formula rate	11	7	—	—
Transmission service charge	7	10	7	10
Smart meter rider	6	2	6	2
Storm costs	5	—	5	—
Other	4	5	1	1
Total current regulatory assets (a)	$39	$48	$19	$13
Noncurrent Regulatory Assets:				
Defined benefit plans	$947	$809	$549	$469
Taxes recoverable through future rates	340	326	340	326
Storm costs	57	93	9	30
Unamortized loss on debt	61	68	36	42
Interest rate swaps	129	141	—	—
Accumulated cost of removal of utility plant	159	137	159	137
AROs	211	143	—	—
Other	14	16	1	2
Total noncurrent regulatory assets	$1,918	$1,733	$1,094	$1,006
Current Regulatory Liabilities:				
Generation supply charge	$23	$41	$23	$41
Demand side management	3	8	—	—
Gas supply clause	—	6	—	—
Universal service rider	14	5	14	5
Transmission formula rate	15	48	15	48
Fuel adjustment clause	11	14	—	—
Act 129 compliance rider	17	—	17	—
Storm damage expense	13	16	13	16
Other	5	7	1	3
Total current regulatory liabilities	$101	$145	$83	$113
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$700	$691	$—	$—
Coal contracts (b)	—	17	—	—
Power purchase agreement - OVEC (b)	75	83	—	—
Net deferred tax assets	23	23	—	—
Act 129 compliance rider	—	22	—	22
Defined benefit plans	23	24	—	—
Interest rate swaps	78	82	—	—
Other	—	3	—	—
Total noncurrent regulatory liabilities	$899	$945	$—	$22

LKE LG&E KU

	2016	2015	2016	2015	2016	2015
Current Regulatory Assets:						
Environmental cost recovery	$6	$ 24	$6	$ 13	$—	$ 11
Generation formula rate	11	7	—	—	11	7
Other	3	4	3	3	—	1
Total current regulatory assets	$20	$ 35	$9	$ 16	$11	$ 19

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	LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015
Noncurrent Regulatory Assets:						
Defined benefit plans	$398	$340	$246	$215	$152	$125
Storm costs	48	63	26	35	22	28
Unamortized loss on debt	25	26	16	17	9	9
Interest rate swaps	129	141	88	98	41	43
AROs	211	143	70	57	141	86
Plant retirement costs	4	6	—	—	4	6
Other	9	8	4	2	5	6
Total noncurrent regulatory assets	$824	$727	$450	$424	$374	$303
Current Regulatory Liabilities:						
Demand side management	$3	$8	$2	$4	$1	$4
Gas supply clause	—	6	—	6	—	—
Fuel adjustment clause	11	14	2	2	9	12
Other	4	4	1	1	3	3
Total current regulatory liabilities	$18	$32	$5	$13	$13	$19
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$700	$691	$305	$301	$395	$390
Coal contracts (b)	—	17	—	7	—	10
Power purchase agreement - OVEC (b)	75	83	52	57	23	26
Net deferred tax assets	23	23	23	23	—	—
Defined benefit plans	23	24	—	—	23	24
Interest rate swaps	78	82	39	41	39	41
Other	—	3	—	2	—	1
Total noncurrent regulatory liabilities	$899	$923	$419	$431	$480	$492

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) These liabilities were recorded as offsets to certain intangible assets that were recorded at fair value upon the acquisition of LKE by PPL.

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent the portion of unrecognized transition obligation, prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, costs of $58 million for PPL, $25 million for PPL Electric, $33 million for LKE, $22 million for LG&E and $11 million for KU, are expected to be amortized into net periodic defined benefit costs in 2017 in accordance with PPL's, PPL

Electric's, LKE's, LG&E's and KU's pension accounting policy.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2016, the balances were $20 million for PPL and LKE, $11 million for LG&E and $9 million for KU. Of the costs expected to be amortized into net periodic defined benefit costs in 2017, $14 million for PPL and LKE, $8 million for LG&E and $6 million for KU, are expected to be recorded as a regulatory asset in 2017.

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(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's, LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2020.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for PPL, LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at $15 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than $15 million recovered annually through base rates. Beginning January 1, 2018, the amortized 2011 storm expense of $5 million will be included in the base rate component of the SDER.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, Phase I of PPL Electric's energy efficiency and conservation plan was approved by a PUC order in October 2009. The order allowed PPL Electric to recover the maximum $250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. Phase II of PPL's energy efficiency and conservation plan allowed PPL Electric to recover the maximum $185 million cost of the program over the three year period June 1, 2013 through May 31, 2016. Phase III of PPL's energy efficiency and conservation plan allows PPL Electric to recover the maximum $313 million over the next five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The Phase II program costs were reconciled at the end of the program and any remaining over- or under-recovery was rolled into Phase III. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Smart Meter Rider (SMR)

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs are able to recover the costs of providing smart metering technology. All of PPL Electric's metered customers currently have advanced meters installed at their service locations capable of many of the functions required under Act 129. PPL Electric conducted pilot projects and technical evaluations of its current advanced metering technology and concluded that the current technology does not meet all of the requirements of Act 129. In June 2014, PPL Electric filed a plan with the PUC to replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. The SMR contains a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, LG&E and KU were authorized to earn a 10% return on equity for all existing ECR plans. On August 8, 2016, the KPSC issued an order establishing a 9.8% authorized return on equity for the 2016 plan projects that pertain to the handling of coal combustion byproducts and MATS. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

Demand Side Management

LG&E's and KU's DSM programs consist of energy efficiency programs, intended to reduce peak demand and delay investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM provision, which includes a rate recovery mechanism that provides for concurrent recovery of DSM costs and incentives, and allows for the recovery of DSM revenues from lost sales associated with the DSM programs. Additionally, LG&E and KU earn an approved return on equity for capital expenditures associated with the residential and commercial load management and demand conservation programs. The cost of DSM programs is assigned only to the class or classes of customers that benefit from the programs.

AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities were amortized over the same terms as the related contracts, which expired at various times through 2016.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Regulatory Liability Associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized.

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Interest Rate Swaps

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL that have terms identical to forward-starting swaps entered into by PPL with third parties. Net realized gains and losses on all of these swaps are probable of recovery through regulated rates; as such, any gains and losses on these derivatives are included in regulatory assets or liabilities and will be recognized in "Interest Expense" on the Statements of Income over the life of the underlying debt at the time the underlying hedged interest expense is recorded. In September 2015, first mortgage bonds totaling $1.05 billion were issued (LG&E issued $550 million and KU issued $500 million) and all outstanding forward-starting interest rate swaps were terminated. Net cash settlements of $88 million were paid on the swaps that were terminated (LG&E and KU each paid $44 million). Net realized losses on these terminated swaps will be recovered through regulated rates. As such, the net settlements were recorded in regulatory assets and are being recognized in "Interest Expense" on the Statements of Income over the life of the new debt that matures in 2025 and 2045. There were no forward starting interest rate swaps outstanding at December 31, 2016. See Note 17 for additional information related to the forward-starting interest rate swaps.

Net cash settlements of $86 million were received on forward starting interest rate swaps that were terminated in 2013 (LG&E and KU each received $43 million). Net realized gains on these terminated swaps will be returned through regulated rates. As such, the net settlements were recorded as regulatory liabilities and are being recognized in "Interest Expense" on the Statements of Income over the life of the associated debt that matures in 2043.

(PPL, LKE and LG&E)

A net cash settlement of $9 million paid on a swap that was terminated by LG&E in December 2016 is included in “Cash Flows from Operating Activities” on the Statements of Cash Flows. The KPSC authorized the recording of a regulatory asset and the recovery of such costs is being sought in the current rate case filed in November 2016.

In addition to the terminated interest rate swaps, realized amounts associated with LG&E's other interest rate swaps, including a swap contract terminated in 2008, are recoverable through rates based on an order from the KPSC. LG&E's unrealized losses and gains are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the loss related to the 2008 terminated swap contract, which is expensed to "Other operation and maintenance", is to be recovered through 2035.

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As a result of the 2014 Kentucky rate case settlement, effective July 1, 2015, LG&E is authorized to earn a 10% return on equity for the GLT mechanism. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, LG&E has requested additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. LG&E annually files revised rates based on projected costs in October with rates effective on the first billing cycle in January. After the completion of a plan year, LG&E submits a balancing adjustment filing to the KPSC to amend rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

(PPL, LKE and KU)

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Plant Retirement Costs

The 2014 Kentucky rate case settlement that became effective July 1, 2015, provided for deferred recovery of costs associated with Green River's remaining coal-fired generating units through their retirement date, which occurred in September 2015. These costs include inventory write-downs and separation benefits and are being amortized over three years.

Regulatory Matters

(PPL)

U.K. Activities

RIIO-ED1

On April 1, 2015, the RIIO-ED1 eight-year price control period commenced for WPD's four DNOs.

Ofgem Review of Line Loss Calculation

In 2014, Ofgem issued its final decision on the DPCR4 line loss incentives and penalties mechanism. As a result, during 2014 WPD increased its liability by $65 million for over-recovery of line losses with a reduction to "Operating Revenues" on the Statement of Income. Other activity impacting the liability included reductions in the liability that has been included in tariffs and foreign exchange movements. WPD began refunding the liability to customers on April 1, 2015 and will continue through March 31, 2019. The liability at December 31, 2016 and 2015 was $26 million and $61 million.

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

On November 23, 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity rates of approximately $103 million at KU and an increase in annual base electricity and gas rates of approximately $94 million and $14 million at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.4% at KU and electricity and gas rate increases of 8.5% and 4.2% at LG&E. New rates are expected to become effective on July 1, 2017. LG&E's and KU's applications include requests for CPCNs for implementing an Advanced Metering System and a Distribution Automation program. The applications are based on a forecasted test year of July 1, 2017 through June 30, 2018 and a requested return on equity of 10.23%. A number of parties have been granted intervention requests in the proceedings. Data discovery and the filing of written testimony will continue through April 2017. A public hearing on the applications is scheduled to commence on May 2, 2017. LG&E and KU cannot predict the outcome of these proceedings.

CPCN and ECR Filings

On August 8, 2016, the KPSC issued an order approving CPCNs and ECR rate treatment regarding environmental construction projects relating to the EPA's regulations addressing the handling of coal combustion by-products and MATS. The construction projects began in 2016 and are expected to continue through 2023. The KPSC order established a 9.8% authorized return on equity for these projects. Recovery of costs commenced with bills rendered on and after August 31, 2016.

(LKE and LG&E)

Gas Franchise

LG&E’s gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee shall revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E, and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

(PPL and PPL Electric)

Pennsylvania Activities

Rate Case Proceeding

On March 31, 2015, PPL Electric filed a request with the PUC for an increase in its annual distribution revenue requirement of approximately $168 million. The application was based on a fully projected future test year of January 1, 2016 through December 31, 2016. On September 3, 2015, PPL Electric filed with the PUC Administrative Law Judge a petition for approval of a settlement agreement under which PPL Electric would be permitted to increase its annual distribution rates by $124 million, effective January 1, 2016. On November 19, 2015, the PUC entered a final order adopting the Administrative Law Judge's recommended decision. The new rates became effective January 1, 2016.

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet, by specified dates, specified goals for reduction in customer electricity usage and peak demand. EDCs not meeting the requirements of Act 129 are subject to significant penalties. In November 2015, PPL Electric filed with the PUC its Act 129 Phase III Energy Efficiency and Conservation Plan for the period June 1, 2016 through May 31, 2021. In June 2016, the PUC approved PPL Electric's Phase III Plan, allowing PPL Electric to implement its energy efficiency and demand response programs and recover, through the Act 129 compliance rider, the $313 million cost of the programs over the five-year period June 1, 2016 through May 31, 2021.

Act 129 also requires Default Service Providers (DSP) to provide electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of load unless otherwise approved by the PUC. A DSP is able to recover the costs associated with its default service procurement plan.

PPL Electric has received PUC approval of its biannual DSP procurement plans for all prior periods required under Act 129. In January 2016, PPL Electric filed a Petition for Approval of a new DSP procurement plan with the PUC for the period June 1, 2017 through May 31, 2021. The parties to the proceeding reached a settlement on all but one issue, and a partial settlement agreement and briefs on the open issue were submitted to the Administrative Law Judge (ALJ) in July 2016. In August 2016, the ALJ issued an initial decision, and certain parties filed exceptions and reply exceptions. In October 2016, the PUC issued an order approving the partial settlement agreement and adopting the initial decision with minor modifications. In November 2016, Retail Electric Supply Association (RESA) filed a Petition for Reconsideration of the portion of the October 2016 order that approved the Customer Assistance Program Standard Offer Referral Program. In January 2017, the PUC issued an order denying RESA's Petition for

Reconsideration and closing the record.

Federal Matters

(PPL and PPL Electric)

FERC Formula Rate

In May 2016, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement. The filing establishes the revenue requirement used to set rates that took effect in June 2016. The time period for any challenges to PPL Electric's annual update expired in October 2016. No challenges were submitted.

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7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	December 31, 2016					December 31, 2015	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL							
U.K.							
WPD plc							
Syndicated Credit Facility (a) (c)	Jan. 2021	£ 210	£ 160	£ —	£ 49	£ 133	£ —
WPD (South West)							
Syndicated Credit Facility (a) (c)	July 2021	245	110	—	135	—	—
WPD (East Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	9	—	291	—	—
WPD (West Midlands)							
Syndicated Credit Facility (a) (c)	July 2021	300	—	—	300	—	—
Uncommitted Credit Facilities		90	60	4	26	—	4
Total U.K. Credit Facilities (b)		£ 1,145	£ 339	£ 4	£ 801	£ 133	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (c) (d)	Jan. 2021	$ 950	$ —	$ 20	$ 930	$ —	$ 151
Syndicated Credit Facility (c) (d)	Nov. 2018	300	—	—	300	—	300
Bilateral Credit Facility (c) (d)	Mar. 2017	150	—	17	133	—	20
Total PPL Capital Funding Credit Facilities		$ 1,400	$ —	$ 37	$ 1,363	$ —	$ 471
PPL Electric							
Syndicated Credit Facility (c) (d)	Jan. 2021	$ 650	$ —	$ 296	$ 354	$ —	$ 1
LKE							
Syndicated Credit Facility (c) (d) (f)	Oct. 2018	$ 75	$ —	$ —	$ 75	$ 75	$ —
LG&E							
Syndicated Credit Facility (c) (d)	Dec. 2020	$ 500	$ —	$ 169	$ 331	$ —	$ 142
KU							
Syndicated Credit Facility (c) (d)	Dec. 2020	$ 400	$ —	$ 16	$ 384	$ —	$ 48
Letter of Credit Facility (c) (d) (e)	Oct. 2017	198	—	198	—	—	198
Total KU Credit Facilities		$ 598	$ —	$ 214	$ 384	$ —	$ 246

(a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

(b) The WPD plc amounts borrowed at December 31, 2016 and 2015 included USD-denominated borrowings of $200 million for both periods, which bore interest at 1.43% and 1.83%. The unused capacity reflects the amount borrowed in GBP of £161 million as of the date borrowed. The WPD (South West) amount borrowed at December 31, 2016 was a GBP-denominated borrowing, which equated to $137 million and bore interest at 0.66%. The WPD (East Midlands) amount borrowed at December 31, 2016 was a GBP-denominated borrowing, which equated to $11 million and bore interest at 0.66%. The WPD Uncommitted Credit Facilities amounts borrowed at December 31, 2016 were GBP-denominated borrowings which equated to $75 million and bore interest at 1.26%. At December 31, 2016, the unused capacity under the U.K. credit facilities was approximately $1 billion.

(c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facilities expiring in November 2018 and March 2017

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be increased by up to $30 million, LG&E and KU each may request up to a $100 million increase in its facility's capacity and LKE may request up to a $25 million increase in its facility's capacity.

(e) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

(f) At December 31, 2015, LKE's interest rate on outstanding borrowings was 1.68%.

In January 2017, the expiration dates for PPL Capital Funding and PPL Electric syndicated credit facilities expiring in January 2021, and the LG&E and KU syndicated credit facilities expiring in December 2020, were extended to January 2022.

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	December 31, 2016				December 31, 2015	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.10%	$ 1,000	$ 20	$ 980	0.78%	$ 451
PPL Electric	1.05%	400	295	105		—
LG&E	0.94%	350	169	181	0.71%	142
KU	0.87%	350	16	334	0.72%	48
Total		$ 2,100	$ 500	$ 1,600		$ 641

In January 2017, PPL Electric's commercial paper program capacity was increased to $650 million.

(PPL and LKE)

See Note 14 for discussion of intercompany borrowings.

Long-term Debt (All Registrants)

	Weighted-Average Rate (g)		Maturities (g)	December 31, 2016	2015
PPL					
U.S.					
Senior Unsecured Notes	3.75	%	2018 - 2044	$4,075	$3,425
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.88	%	2017 - 2045	6,849	6,874
Junior Subordinated Notes	6.31	%	2067 - 2073	930	930
Total U.S. Long-term Debt				11,854	11,229
U.K.					
Senior Unsecured Notes (d)	5.44	%	2017 - 2040	5,707	7,170
Index-linked Senior Unsecured Notes (e)	1.67	%	2026 - 2056	838	772
Total U.K. Long-term Debt (f)				6,545	7,942
Total Long-term Debt Before Adjustments				18,399	19,171

Fair market value adjustments	22	30
Unamortized premium and (discount), net (e)	20	(28)
Unamortized debt issuance costs	(115)	(125)
Total Long-term Debt	18,326	19,048
Less current portion of Long-term Debt	518	485
Total Long-term Debt, noncurrent	$17,808	$18,563

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	Weighted-Average Rate (g)		Maturities (g)	December 31, 2016		2015	
PPL Electric							
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.20	%	2017 - 2045	$2,864		$2,864	
Total Long-term Debt Before Adjustments				2,864		2,864	
Unamortized discount				(12	)	(13	)
Unamortized debt issuance costs				(21	)	(23	)
Total Long-term Debt				2,831		2,828	
Less current portion of Long-term Debt				224		—	
Total Long-term Debt, noncurrent				$2,607		$2,828	
LKE							
Senior Unsecured Notes	3.97	%	2020 - 2021	$725		$725	
First Mortgage Bonds (a) (c)	3.67	%	2017 - 2045	3,985		4,010	
Long-term debt to affiliate	3.50	%	2025	400		400	
Total Long-term Debt Before Adjustments				5,110		5,135	
Fair market value adjustments				(1	)	(1	)
Unamortized discount				(15	)	(16	)
Unamortized debt issuance costs				(29	)	(30	)
Total Long-term Debt				5,065		5,088	
Less current portion of Long-term Debt				194		25	
Total Long-term Debt, noncurrent				$4,871		$5,063	
LG&E							
First Mortgage Bonds (a) (c)	3.45	%	2017 - 2045	$1,634		$1,659	
Total Long-term Debt Before Adjustments				1,634		1,659	
Fair market value adjustments				(1	)	(1	)
Unamortized discount				(4	)	(4	)
Unamortized debt issuance costs				(12	)	(12	)
Total Long-term Debt				1,617		1,642	
Less current portion of Long-term Debt				194		25	
Total Long-term Debt, noncurrent				$1,423		$1,617	
KU							
First Mortgage Bonds (a) (c)	3.82	%	2019 - 2045	$2,351		$2,351	
Total Long-term Debt Before Adjustments				2,351		2,351	
Unamortized discount				(9	)	(10	)
Unamortized debt issuance costs				(15	)	(15	)
Total Long-term Debt				2,327		2,326	
Less current portion of Long-term Debt				—		—	
Total Long-term Debt, noncurrent				$2,327		$2,326	

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately $7.6 billion and $6.7 billion at December 31, 2016 and 2015.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $4.4 billion and $4.2 billion at December 31, 2016 and 2015.

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Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $5.8 billion and $5.7 billion at December 31, 2016 and 2015.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes $224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and $90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

(c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2016, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $514 million for LKE, comprised of $391 million and $123 million for LG&E and KU, respectively. At December 31, 2016, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $386 million for LKE, comprised of $158 million and $228 million for LG&E and KU, respectively.

Certain of the variable rate tax-exempt revenue bonds totaling $375 million at December 31, 2016 ($147 million for LG&E and $228 million for KU), are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

(d) Includes £225 million ($281 million at December 31, 2016) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

(e) The principal amount of the notes issued by WPD (South West) and WPD (East Midlands) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2015 to 2016 was an increase of approximately £10 million ($13 million) resulting from inflation. In addition, this amount includes £225 million ($281 million at December 31, 2016) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

(f) Includes £4.4 billion ($5.5 billion at December 31, 2016) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

(g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2016.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2017 through 2021 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2017	$518	$224	$194	$194	$—
2018	348	—	98	98	—
2019	136	—	136	40	96
2020	1,262	100	975	—	500
2021	1,150	400	250	—	—
Thereafter	14,985	2,140	3,457	1,302	1,755
Total	$18,399	$2,864	$5,110	$1,634	$2,351

(PPL)

In March 2014, PPL Capital Funding remarketed $978 million of 4.32% Junior Subordinated Notes due 2019 that were originally issued in April 2011 as a component of PPL's 2011 Equity Units. In connection with the remarketing, PPL Capital Funding retired $228 million of the 4.32% Junior Subordinated Notes due 2019 and issued $350 million of 2.189% Junior Subordinated Notes due 2017 and $400 million of 3.184% Junior Subordinated Notes due 2019. Simultaneously, the newly issued Junior Subordinated Notes were exchanged for $350 million of 3.95% Senior Notes due 2024 and $400 million of 5.00% Senior Notes due 2044. The transaction was accounted for as a debt extinguishment, resulting in a $9 million loss on extinguishment of the Junior Subordinated Notes, recorded to "Interest Expense" on the Statement of Income. Except for the $228 million retirement of the 4.32% Junior Subordinated Notes and fees related to the transactions, the activity was non-cash and excluded from the Statement of Cash Flows for the year ended December 31, 2014. Additionally, in May 2014, PPL issued 31.7 million shares of common stock at $30.86 per share to settle the 2011 Purchase Contracts. PPL received net cash proceeds of $978 million, which were used to repay short-term debt and for general corporate purposes.

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In May 2016, PPL Capital Funding issued $650 million of 3.10% Senior Notes due 2026. PPL Capital Funding received proceeds of $645 million, net of a discount and underwriting fees, which will be used to invest in or make loans to subsidiaries of PPL, to repay short-term debt and for general corporate purposes.

In May 2016, WPD (East Midlands) borrowed £100 million at 0.4975% under a new 10-year index linked term loan agreement, which will be used for general corporate purposes.

In May 2016, WPD plc repaid the entire $460 million principal amount of its 3.90% Senior Notes upon maturity.

In October 2016, WPD (East Midlands) issued an additional £40 million of its 2.671% Index-linked Senior Notes due 2043. WPD (East Midlands) received proceeds of £83 million, which equated to $101 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The proceeds will be used for general corporate purposes.

(PPL and PPL Electric)

In March 2016, the LCIDA issued $116 million of Pollution Control Revenue Refunding Bonds, Series 2016A due 2029 and $108 million of Pollution Control Revenue Refunding Bonds, Series 2016B due 2027 on behalf of PPL Electric. The bonds were issued bearing interest at an initial term rate of 0.90% through their mandatory purchase dates of September 1, 2017 and August 15, 2017. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at PPL Electric's option. The proceeds of the bonds were used to redeem $116 million of 4.70% Pollution Control Revenue Refunding Bonds, 2005 Series A due 2029 and $108 million of 4.75%% Pollution Control Revenue Refunding Bonds, 2005 Series B due 2027 previously issued by the LCIDA on behalf of PPL Electric.

In connection with the issuance of each of these new series of LCIDA bonds, PPL Electric entered into a loan agreement with the LCIDA pursuant to which the LCIDA has loaned to PPL Electric the proceeds of the LCIDA bonds on payment terms that correspond to the LCIDA bonds. In order to secure its obligations under the loan agreement, PPL Electric issued $224 million of First Mortgage Bonds under its 2001 Mortgage Indenture, which also have payment terms that correspond to the LCIDA bonds.

(PPL, LKE and LG&E)

In September 2016, the County of Trimble, Kentucky issued $125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Louisville Gas and Electric Company Project) due 2044 on behalf of LG&E. The bonds were issued with a floating interest rate that initially will reset weekly. The method of determining the interest rate on the bonds may be converted from time to time at LG&E's option. The proceeds of the bonds were used to redeem $83 million of Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2030 and $42 million of Pollution Control Revenue Refunding Bonds, 2002 Series A (Louisville Gas and Electric Company Project) due 2032 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In December 2016, LG&E redeemed, at par, its $25 million Jefferson County Pollution Control Revenue Refunding Bonds, 2000 Series A (Louisville Gas and Electric Company Project) due 2027.

(PPL, LKE and KU)

In August 2016, the County of Carroll, Kentucky issued $96 million of Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) due 2042 on behalf of KU. The bonds were issued bearing interest at an initial term rate of 1.05% through their mandatory purchase date of September 1, 2019. Thereafter, the method of determining the interest rate on the bonds may be converted from time to time at KU’s option. The proceeds of the bonds were used to redeem $96 million of Pollution Control Revenue Refunding Bonds, 2002 Series C (Kentucky Utilities Company Project) due 2032 previously issued by the County of Carroll, Kentucky on behalf of KU.

Legal Separateness (All Registrants)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not

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satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of $500 million of its common stock. PPL issued the following for the years ended December 31:

	2016	2015
Number of shares (in thousands)	710	1,477
Average share price	$35.23	$33.41
Net Proceeds	$25	$49

Distributions and Related Restrictions

In November 2016, PPL declared its quarterly common stock dividend, payable January 3, 2017, at 38 cents per share (equivalent to $1.52 per annum). On February 1, 2017, PPL announced that the company is increasing its common stock dividend to 39.5 cents per share on a quarterly basis (equivalent to $1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

See Note 8 for information regarding the June 1, 2015 distribution to PPL's shareowners of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2016, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2016, net assets of $2.7 billion ($1.1 billion for LG&E and $1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of $3.1 billion ($1.4 billion for LG&E and $1.7 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the

VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

8. Acquisitions, Development and Divestitures

(All Registrants)

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results.

(PPL)

Discontinued Operations

Spinoff of PPL Energy Supply

In June 2014, PPL and PPL Energy Supply executed definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and immediately combine it with Riverstone's competitive power generation businesses to form a new, stand-alone, publicly traded company named Talen Energy. The transaction was subject to customary closing conditions, including receipt of regulatory approvals from the NRC, FERC, DOJ and PUC, all of which were received by mid-April 2015. On April 29, 2015, PPL's Board of Directors declared the June 1, 2015 distribution to PPL's shareowners of record on May 20, 2015 of a newly formed entity, Holdco, which at closing owned all of the membership interests of PPL Energy Supply and all of the common stock of Talen Energy.

Immediately following the spinoff on June 1, 2015, Holdco merged with a special purpose subsidiary of Talen Energy, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy and the sole owner of PPL Energy Supply. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by its owners to become a subsidiary of Talen Energy. PPL shareowners received approximately 0.1249 shares of Talen Energy common stock for each share of PPL common stock they owned on May 20, 2015. Following completion of these transactions, PPL shareowners owned 65% of Talen Energy and affiliates of Riverstone owned 35%. The spinoff had no effect on the number of PPL common shares owned by PPL shareowners or the number of shares of PPL common stock outstanding. The transaction is intended to be tax-free to PPL and its shareowners for U.S. federal income tax purposes.

PPL has no continuing ownership interest in or control of Talen Energy and Talen Energy Supply (formerly PPL Energy Supply).

Loss on Spinoff

In June 2015, in conjunction with the accounting for the spinoff, PPL evaluated whether the fair value of the Supply segment's net assets was less than the carrying value as of the June 1, 2015 spinoff date.

PPL considered several valuation methodologies to derive a fair value estimate of its Supply segment at the spinoff date. These methodologies included considering the closing "when-issued" Talen Energy market value on June 1, 2015 (the spinoff date), adjusted for the proportional share of the equity value attributable to the Supply segment, as well as, the valuation methods consistently used in PPL's quantitative goodwill impairment assessments - an income approach using a discounted cash flow analysis of the Supply segment and an alternative market approach considering market multiples of comparable companies.

Although the Talen Energy market value approach utilized the most observable inputs of the three approaches, PPL considered certain limitations of the "when-issued" trading market for the spinoff transaction including the short trading duration, lack of liquidity in the market and anticipated initial Talen Energy stock ownership base selling pressure, among other factors, and concluded that these factors limited this input being solely determinative of the fair value of the Supply segment. As such, PPL also considered the other valuation approaches in estimating the overall fair value, but ultimately assigned the highest weighting to the Talen Energy market value approach.

The following table summarizes PPL's fair value analysis:

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Approach	Weighting	Weighted Fair Value (in billions)
Talen Energy Market Value	50%	$ 1.4
Income/Discounted Cash Flow	30%	1.1
Alternative Market (Comparable Company)	20%	0.7
Estimated Fair Value		$ 3.2

A key assumption included in the fair value estimate is the application of a control premium of 25% in the two market approaches. PPL concluded it was appropriate to apply a control premium in these approaches as the goodwill impairment testing guidance was followed in determining the estimated fair value of the Supply segment, which had historically been a reporting unit for PPL. This guidance provides that the market price of an individual security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit. This guidance also indicates that substantial value may arise to a controlling shareholder from the ability to take advantage of synergies and other benefits that arise from control over another entity, and that the market price of a company's individual share of stock does not reflect this additional value to a controlling shareholder. Therefore, the quoted market price need not be the sole measurement basis for determining the fair value, and including a control premium is appropriate in measuring the fair value of a reporting unit.

In determining the control premium, PPL reviewed premiums received during the prior five years in market sales transactions obtained from observable independent power producer and hybrid utility transactions greater than $1 billion. Premiums for these transactions ranged from 5% to 42% with a median of approximately 25%. Given these metrics, PPL concluded a control premium of 25% to be reasonable for both of the market valuation approaches used.

Assumptions used in the discounted cash flow analysis included forward energy prices, forecasted generation, and forecasted operation and maintenance expenditures that were consistent with assumptions used in the Energy Supply portion of the Talen Energy business planning process at that time and a market participant discount rate.

Using these methodologies and weightings, PPL determined the estimated fair value of the Supply segment (classified as Level 3) was below its carrying value of $4.1 billion and recorded a loss on the spinoff of $879 million in the second quarter of 2015, which is reflected in discontinued operations and is nondeductible for tax purposes. This amount served to reduce the basis of the net assets accounted for as a dividend at the June 1, 2015 spinoff date.

Costs of Spinoff

Following the announcement of the transaction to form Talen Energy, efforts were initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. Organizational plans were substantially completed in 2014. The new organizational plans identified the need to resize and restructure the organizations and as a result, in 2014, estimated charges of $36 million for employee separation benefits were recorded related to 306 positions. Of this amount, $16 million related to 112 Energy Supply positions and is reflected in discontinued operations. The remaining $20 million is primarily reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income.

In 2015, the organizational structures were finalized for both PPL and Talen Energy, which resulted in an additional charge of $10 million for employee separation benefits. Of this amount, $2 million related to Energy Supply positions and is reflected in discontinued operations. The remaining $8 million is reflected in "Other operation and maintenance" on the PPL Consolidated Statements of Income. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments and outplacement services. At December 31, 2015, the recorded liability related to the separation benefits was $13 million, which is included in "Other current liabilities" on the Balance Sheet.

Additional employee-related costs incurred primarily included accelerated stock-based compensation and prorated performance-based cash incentive and stock-based compensation awards, primarily for PPL Energy Supply employees and for PPL Services employees who became PPL Energy Supply employees in connection with the transaction. PPL Energy Supply recognized $24 million of these costs at the spinoff closing date in 2015, which are reflected in discontinued operations.

PPL recorded $45 million and $27 million of third-party costs related to this transaction in 2015 and 2014. Of these costs, $32 million and $19 million were primarily for bank advisory, legal and accounting fees to facilitate the transaction, and are reflected in discontinued operations. An additional $13 million and $8 million of consulting and other costs were incurred in 2015 and 2014, related to the formation of the Talen Energy organization and to reconfigure the remaining PPL service functions. These costs are recorded primarily in "Other operation and maintenance" on the Statements of Income.

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At the close of the transaction in 2015, $72 million ($42 million after-tax) of cash flow hedges, primarily unamortized losses on PPL interest rate swaps recorded in AOCI and designated as cash flow hedges of PPL Energy Supply's future interest payments, were reclassified into earnings and reflected in discontinued operations.

As a result of the June 2014 spinoff announcement, PPL recorded $50 million of deferred income tax expense in 2014, to adjust valuation allowances on deferred tax assets primarily for state net operating loss carryforwards that were previously supported by the future earnings of PPL Energy Supply.

Continuing Involvement (PPL and PPL Electric)

As a result of the spinoff, PPL and PPL Energy Supply entered into a Transition Services Agreement (TSA) that terminates no later than two years from the spinoff date. The TSA sets forth the terms and conditions for PPL and Talen Energy to provide certain transition services to one another. PPL is providing Talen Energy certain information technology, financial and accounting, human resource and other specified services. PPL billed Talen Energy $35 million and $25 million for these services in 2016 and 2015. In general, the fees for the transition services allow the provider to recover its cost of the services, including overheads, but without margin or profit.

Additionally, prior to the spinoff, through the annual competitive solicitation process, PPL EnergyPlus was awarded supply contracts for a portion of the PLR generation supply for PPL Electric, which were retained by Talen Energy Marketing as part of the spinoff transaction. PPL Electric's supply contracts with Talen Energy Marketing extended through November 2016. Energy purchases from PPL EnergyPlus were previously included in PPL Electric's Statements of Income as "Energy purchases from affiliate" but were eliminated in PPL's Consolidated Statements of Income.

Subsequent to the spinoff, PPL Electric's energy purchases from Talen Energy Marketing were $106 million and $27 million for 2016 and 2015. These energy purchases are no longer considered affiliate transactions.

(PPL)

Summarized Results of Discontinued Operations

The operations of the Supply segment are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. Following are the components of Discontinued Operations in the Statements of Income for the periods ended December 31:

	2015	2014
Operating revenues	$1,427	$3,848
Operating expenses	1,328	3,410
Other Income (Expense) - net	(21)	13
Interest expense (a)	150	190
Gain on sale of Montana Hydro Sale	—	237
Income tax expense (benefit)	(30)	198
Loss on spinoff	(879)	—
Income (Loss) from Discontinued Operations (net of income taxes)	$(921)	$300

(a) Includes interest associated with the Supply segment with no additional allocation as the Supply segment was sufficiently capitalized.

Net assets, after recognition of the loss on the spinoff, of $3.2 billion were distributed to PPL shareowners in the June 1, 2015, spinoff of PPL Energy Supply.

Montana Hydro Sale

In November 2014, PPL Montana completed the sale to NorthWestern Corporation of 633 MW of hydroelectric generating facilities located in Montana for approximately $900 million in cash. The proceeds from the sale remained with PPL and did not transfer to Talen Energy as a result of the spinoff of PPL Energy Supply. The sale included 11 hydroelectric power facilities and related assets, included in the Supply segment. A gain of $237 million ($137 million after-tax) was recorded on the sale of the hydroelectric power facilities.

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As the Montana hydroelectric power facilities were previously reported as a component of PPL Energy Supply and the Supply segment, the components of discontinued operations for these facilities contained in the Statements of Income are included in the disclosure above.

Development

Regional Transmission Line Expansion Plan (PPL and PPL Electric)

Susquehanna-Roseland

In 2007, PJM directed the construction of a new 150-mile, 500-kV transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line was needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM directed PPL Electric to construct the Pennsylvania portion of the Susquehanna-Roseland line and Public Service Electric & Gas Company to construct the New Jersey portion of the line. The line was energized in May 2015, completing the approximately $648 million project. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

Northeast/Pocono

In October 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile, 230 kV transmission line that includes three new substations and upgrades to adjacent facilities). The FERC granted the incentive for inclusion in rate base of all prudently incurred construction work in progress costs but denied the requested incentive for a 100 basis point adder to the return on equity.

In December 2012, PPL Electric submitted an application to the PUC requesting permission to site and construct the project. In January 2014, the PUC issued a final order approving the application. The line was energized in April 2016, completing the approximately $350 million project, which includes additional substation security enhancements. Costs related to the project are included on the Balance Sheets, primarily in "Regulated utility plant."

Capacity Needs (PPL, LKE, LG&E and KU)

The Cane Run Unit 7 NGCC was put into commercial operation in June 2015. As a result and to meet more stringent EPA regulations, LG&E retired one coal-fired generating unit at the Cane Run plant in March 2015 and retired the remaining two coal-fired generating units at the plant in June 2015. KU retired the two remaining coal-fired generating units at the Green River plant in September 2015. LG&E and KU incurred costs of $11 million and $6 million directly related to these retirements including inventory write-downs and separation benefits. There were no gains or losses on the retirement of these units. See Note 6 for more information related to the regulatory recovery of the costs associated with the retirement of the Green River units.

In December 2014, a final order was issued by the KPSC approving the request to construct a solar generation facility at the E.W. Brown facility. LG&E and KU completed construction activities and placed a 10 MW facility into commercial operation in June 2016 at a cost of $25 million.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

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	2016	2015	2014
PPL	$ 50	$ 49	$ 51
LKE	26	24	18
LG&E	15	12	7
KU	11	11	10

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2017	$31	$ 24	$ 15	$9
2018	26	22	14	8
2019	16	13	7	6
2020	11	9	4	5
2021	8	6	2	4
Thereafter	26	19	8	10
Total	$118	$ 93	$ 50	$42

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
SIP	10,000,000		2,000,000	750,000	$15,000,000
ICPKE	14,199,796	2 %	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

Under the SIP, each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICP and the ICPKE are currently paid in cash when dividends are declared by PPL.

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The fair value of restricted stock and restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock and restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock and restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock and restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2016	2015	2014
PPL	$33.84	$34.50	$31.50
PPL Electric	34.32	34.41	31.81
LKE	33.73	34.89	30.98

Restricted stock and restricted stock unit activity for 2016 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,679,475	$ 29.65
Granted	536,208	33.84
Vested	(869,932)	29.30
Forfeited	(8,726)	32.59
Nonvested, end of period (a)	1,337,025	31.57
PPL Electric		
Nonvested, beginning of period	221,085	$ 29.48
Transfer between registrants	(10,405)	30.98
Granted	70,486	34.32
Vested	(73,488)	28.91
Forfeited	(3,108)	32.81
Nonvested, end of period	204,570	31.27
LKE		
Nonvested, beginning of period	318,963	$ 29.65
Transfer between registrants	(24,993)	30.52
Granted	86,987	33.73
Vested	(137,676)	28.76
Nonvested, end of period	243,281	31.53

(a) Excludes 862,337 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock and restricted stock units vesting for the years ended December 31 was:

	2016	2015	2014
PPL	$ 30	$ 28	$ 11
PPL Electric	3	4	2
LKE	5	4	—

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Performance Units

Performance units are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each years' awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee. For performance units granted prior to 2014, the performance units are eligible for pro-rata vesting at the end of the performance period for retirement, disability or death of an employee.

Beginning in 2014, the fair value of performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. The fair value of performance units granted in 2013 and prior years was recognized as compensation expense on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2016		2015		2014	
Expected stock volatility	19.60	%	15.90	%	15.80	%
Expected life	3 years		3 years		3 years	

The weighted-average grant date fair value of performance units granted was:

	2016	2015	2014
PPL	$35.74	$36.76	$34.55
PPL Electric	35.68	37.93	34.43
LKE	35.28	37.10	34.12

Performance unit activity for 2016 was:

Performance Weighted-

	Units	Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	993,540	$ 33.09
Granted	471,401	35.74
Vested	(375,668)	31.96
Forfeited	(18,737)	33.22
Nonvested, end of period (a)	1,070,536	34.65

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	Performance Units		Weighted-Average Grant Date Fair Value Per Share
PPL Electric			
Nonvested, beginning of period	67,671		$ 33.05
Granted	35,694		35.68
Vested	(23,880	)	31.89
Forfeited	(2,759	)	31.74
Nonvested, end of period	76,726		34.68
LKE			
Nonvested, beginning of period	193,164		$ 32.96
Transfer between registrants	(4,432	)	35.07
Granted	84,298		35.28
Vested	(70,048	)	31.74
Forfeited	(11,381	)	33.61
Nonvested, end of period	191,601		34.34

(a) Excludes 230,196 performance units for which the service vesting requirement was waived for former PPL Energy Supply employees as a result of the spinoff, but for which the ultimate number of shares to be distributed will depend on the actual attainment of the performance goals at the end of the specified performance periods.

The total fair value of performance units vesting for the year ended December 31, 2016, 2015 and 2014 was $12 million, $6 million and $5 million for PPL and insignificant for PPL Electric and LKE.

Stock Options

PPL's CGNC eliminated the use of stock options and changed its long-term incentive mix to 60% performance units and 40% performance-contingent restricted stock units, resulting in 100% performance-based long-term incentive mix for equity awards granted beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2016, are fully vested. All options expire no later than ten years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2016 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	6,385,149	$ 28.54		

Exercised	(1,903,989)	27.51			
Outstanding and exercisable at end of period	4,481,160	28.98	4.4	$	29
PPL Electric					
Outstanding at beginning of period	313,433	$ 27.79			
Exercised	(72,494)	28.84			
Outstanding and exercisable at end of period	240,939	27.48	4.5	$	2
LKE					
Outstanding at beginning of period	425,656	$ 26.08			
Exercised	(363,760)	26.12			
Outstanding and exercisable at end of period	61,896	25.81	5.5	$	1

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For 2016, 2015 and 2014, PPL received $52 million, $97 million and $67 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2016, 2015 and 2014 were $18 million, $21 million and $13 million.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2016	2015	2014
PPL	$ 27	$ 33	$ 30
PPL Electric	16	14	12
LKE	7	8	8

See Note 8 for details of the costs recognized in discontinued operations related to the accelerated vesting of awards for former PPL Energy Supply employees.

The income tax benefit related to above compensation expense was as follows:

	2016	2015	2014
PPL	$ 12	$ 14	$ 12
PPL Electric	7	6	5
LKE	3	3	3

At December 31, 2016, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, and performance units was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 8	1.8
PPL Electric	1	1.8
LKE	1	1.6

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

The majority of PPL's subsidiaries domestic employees are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

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PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net periodic defined benefit costs (credits):									
Service cost	$66	$96	$97	$69	$79	$71	$7	$11	$12
Interest cost	174	194	224	235	314	354	26	26	31
Expected return on plan assets	(228)	(258)	(287)	(504)	(523)	(521)	(22)	(26)	(26)
Amortization of:									
Prior service cost (credit)	8	7	20	—	—	—	—	1	—
Actuarial (gain) loss	50	84	28	138	158	132	1	—	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	70	123	82	(62)	28	36	12	12	18
Settlements	3	—	—	—	—	—	—	—	—
Termination benefits	—	—	13	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	$73	$123	$95	$(62)	$28	$36	$12	$12	$18
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Divestiture (a)	$—	$(353)	$—	$—	$—	$—	$—	$(6)	$—
Settlement	(3)	—	—	—	—	—	—	—	—
Net (gain) loss	253	63	574	7	508	354	9	(9)	22
Prior service cost (credit)	15	18	(8)	—	—	—	—	—	7
Amortization of:									
Prior service (cost) credit	(8)	(7)	(20)	—	—	—	(1)	(1)	—
Actuarial gain (loss)	(50)	(85)	(28)	(138)	(158)	(132)	(1)	—	(1)
Total recognized in OCI and regulatory assets/liabilities (b)	207	(364)	518	(131)	350	222	7	(16)	28

Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	$280	$(241)	$613	$(193)	$378	$258	$19	$(4)	$46

(a) As a result of the spinoff of PPL Energy Supply, amounts in AOCI were allocated to certain former active and inactive employees of PPL Energy Supply and included in the distribution. See Note 8 for additional details.

(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

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For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
OCI	$236	$(269)	$319	$7	$12	$7
Regulatory assets/liabilities	(29)	(95)	199	—	(28)	21
Total recognized in OCI and regulatory assets/liabilities	$207	$(364)	$518	$7	$(16)	$28

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs in 2017 are as follows:

	Pension Benefits	
	U.S.	U.K.
Prior service cost (credit)	$9	$—
Actuarial (gain) loss	67	141
Total	$76	$141
Amortization from Balance Sheet:		
AOCI	$18	$141
Regulatory assets/liabilities	58	—
Total	$76	$141

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
Net periodic defined benefit costs (credits):						
Service cost	$23	$26	$21	$5	$5	$4
Interest cost	71	68	66	9	9	9
Expected return on plan assets	(91)	(88)	(82)	(6)	(6)	(4)
Amortization of:						
Prior service cost	8	7	5	3	3	2
Actuarial (gain) loss (a)	21	37	12	(1)	—	(1)
Net periodic defined benefit costs	$32	$50	$22	$10	$11	$10
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	$119	$20	$162	$6	$(15)	$26
Prior service cost	—	19	23	—	—	6
Amortization of:						
Prior service credit	(8)	(7)	(5)	(3)	(3)	(2)

Actuarial gain (loss)	(21)	(37)	(12)	1	—	1
Total recognized in OCI and regulatory assets/liabilities	90	(5)	168	4	(18)	31
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$122	$45	$190	$14	$(7)	$41

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $6 million in 2016 and $9 million in 2015.

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For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
OCI	$42	$4	$84	$2	$(2)	$9
Regulatory assets/liabilities	48	(9)	84	2	(16)	22
Total recognized in OCI and regulatory assets/liabilities	$90	$(5)	$168	$4	$(18)	$31

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic defined benefit costs for LKE in 2017 are as follows.

	Pension Benefits	Other Postretirement Benefits
Prior service cost	$ 8	$ 1
Actuarial Loss	30	—
Total	$ 38	$ 1
Amortization from Balance Sheet:		
AOCI	$ 5	$ —
Regulatory assets/liabilities	33	1
Total	$ 38	$ 1

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

	Pension Benefits		
	2016	2015	2014
Net periodic defined benefit costs (credits):			
Service cost	$1	$1	$1
Interest cost	15	14	15
Expected return on plan assets	(21)	(20)	(19)
Amortization of:			
Prior service cost	4	3	2
Actuarial loss (a)	7	11	6
Net periodic defined benefit costs	$6	$9	$5
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net loss	$22	$8	$14
Prior service cost	—	10	9
Amortization of:			
Prior service credit	(4)	(3)	(2)
Actuarial gain	(7)	(11)	(6)
Total recognized in regulatory assets/liabilities	11	4	15

Total recognized in net periodic defined benefit costs and regulatory assets	$17	$13	$20

(a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was $5 million in 2016 and $3 million in 2015.

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The estimated amounts to be amortized from regulatory assets into net periodic defined benefit costs for LG&E in 2017 are as follows.

	Pension Benefits
Prior service cost	$ 4
Actuarial loss	9
Total	$ 13

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2016	2015	2014	2016	2015	2014	2016	2015	2014
PPL	$ 53	$ 71	$ 45	$ (95)	$ (21)	$ (9)	$ 7	$ 8	$ 10
PPL Electric (a)	10	15	12				1	—	2
LKE (b)	24	37	17				6	8	7
LG&E (b)	8	12	5				3	4	4
KU (a) (b)	5	9	3				2	2	2

(a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable.

(b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to operating expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts, $3 million for LG&E and $2 million for KU were recorded as regulatory assets in 2016 and $4 million for LG&E and $1 million for KU were recorded as regulatory assets in 2015.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
LG&E Non-Union Only	$ 4	$ 5	$ 2	$ 3	$ 4	$ 4

(PPL, LKE and LG&E)

PPL, LKE and LG&E adopted the new mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables) for all U.S. defined benefit pension and other postretirement benefit plans. In addition, PPL, LKE and

LG&E updated the basis for estimating projected mortality improvements and selected the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. These new mortality assumptions reflect the recognition of both improved life expectancies and the expectation of continuing improvements in life expectancies.

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The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
PPL						
Discount rate	4.21%	4.59%	2.87%	3.68%	4.11 %	4.48 %
Rate of compensation increase	3.95%	3.93%	3.50%	4.00%	3.92 %	3.91 %
LKE						
Discount rate	4.19%	4.56%			4.12 %	4.49 %
Rate of compensation increase	3.50%	3.50%			3.50 %	3.50 %
LG&E						
Discount rate	4.13%	4.49%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
PPL									
Discount rate service cost (b)	4.59%	4.25%	5.12%	3.90%	3.85%	4.41%	4.48%	4.09%	4.91%
Discount rate interest cost (b)	4.59%	4.25%	5.12%	3.14%	3.85%	4.41%	4.48%	4.09%	4.91%
Rate of compensation increase	3.93%	3.91%	3.97%	4.00%	4.00%	4.00%	3.91%	3.86%	3.96%
Expected return on plan assets (a)	7.00%	7.00%	7.00%	7.20%	7.19%	7.19%	6.11%	6.06%	5.96%
LKE									
Discount rate	4.56%	4.25%	5.18%				4.49%	4.06%	4.91%
Rate of compensation increase	3.50%	3.50%	4.00%				3.50%	3.50%	4.00%
Expected return on plan assets (a)	7.00%	7.00%	7.00%				6.82%	6.82%	6.75%
LG&E									
Discount rate	4.49%	4.20%	5.13%						
Expected return on plan assets (a)	7.00%	7.00%	7.00%						

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

(b) As of January 1, 2016, WPD began using individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 for additional details.

(PPL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2016	2015	2014
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	7.0 %	6.8 %	7.2 %
– cost	6.8 %	7.2 %	7.6 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0 %	5.0 %	5.0 %
– cost	5.0 %	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate			
– obligations	2022	2020	2020
– cost	2020	2020	2020

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A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2016:

	One Percentage Point Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	$ 5	$ (5)
LKE	4	(4)

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$3,863	$5,399	$8,404	$8,523	$596	$716
Service cost	66	96	69	79	7	11
Interest cost	174	194	235	314	26	26
Participant contributions	—	—	14	15	14	13
Plan amendments	14	19	—	—	—	—
Actuarial (gain) loss	214	(193)	484	200	11	(37)
Divestiture (a)	—	(1,416)	—	—	—	(76)
Settlements	(9)	—	—	—	—	—
Gross benefits paid	(243)	(236)	(357)	(391)	(64)	(58)
Federal subsidy	—	—	—	—	1	1
Currency conversion	—	—	(1,466)	(336)	—	—
Benefit Obligation, end of period	4,079	3,863	7,383	8,404	591	596
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,227	4,462	7,625	7,734	379	484
Actual return on plan assets	189	2	979	205	25	(2)
Employer contributions	79	158	330	366	19	17
Participant contributions	—	—	14	15	14	13
Divestiture (a)	—	(1,159)	—	—	—	(80)
Settlements	(9)	—	—	—	—	—
Gross benefits paid	(243)	(236)	(357)	(391)	(59)	(53)
Currency conversion	—	—	(1,380)	(304)	—	—
Plan assets at fair value, end of period	3,243	3,227	7,211	7,625	378	379
Funded Status, end of period	$(836)	$(636)	$(172)	$(779)	$(213)	$(217)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	$—	$—	$10	$—	$2	$2

Current liability	(17)	(10)	—	—	(3)	(3)
Noncurrent liability	(819)	(626)	(182)	(779)	(212)	(216)
Net amount recognized, end of period	$(836)	$(636)	$(172)	$(779)	$(213)	$(217)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	$59	$53	$—	$—	$—	$1
Net actuarial (gain) loss	1,178	977	2,553	2,684	45	37
Total (b)	$1,237	$1,030	$2,553	$2,684	$45	$38
Total accumulated benefit obligation for defined benefit pension plans	$3,807	$3,590	$6,780	$7,747		

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(a) As a result of the spinoff of PPL Energy Supply, obligations and assets attributable to certain former active and inactive employees of PPL Energy Supply were transferred to Talen Energy plans.
(b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
AOCI	$357	$275	$ 20	$ 18
Regulatory assets/liabilities	880	755	25	20
Total	$1,237	$1,030	$ 45	$ 38

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S. PBO in excess of plan assets		U.K. PBO in excess of plan assets	
	2016	2015	2016	2015
Projected benefit obligation	$4,079	$3,863	$3,403	$8,404
Fair value of plan assets	3,243	3,227	3,221	7,625

	U.S. ABO in excess of plan assets		U.K. ABO in excess of plan assets	
	2016	2015	2016	2015
Accumulated benefit obligation	$3,807	$3,590	$657	$3,532
Fair value of plan assets	3,243	3,227	643	3,287

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$1,588	$1,608	$216	$234
Service cost	23	26	5	5
Interest cost	71	68	9	9
Participant contributions	—	—	7	7
Plan amendments (a)	—	19	—	—
Actuarial (gain) loss	96	(74)	4	(22)
Gross benefits paid (a)	(109)	(59)	(21)	(18)
Federal subsidy	—	—	—	1
Benefit Obligation, end of period	1,669	1,588	220	216

Change in Plan Assets				
Plan assets at fair value, beginning of period	1,289	1,301	88	82
Actual return on plan assets	69	(7)	4	—
Employer contributions	66	54	20	17
Participant contributions	—	—	7	7
Gross benefits paid	(109)	(59)	(21)	(18)
Plan assets at fair value, end of period	1,315	1,289	98	88
Funded Status, end of period	$(354)	$(299)	$(122)	$(128)

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	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$—	$—	$2	$2
Current liability	(4)	(3)	(3)	(3)
Noncurrent liability	(350)	(296)	(121)	(127)
Net amount recognized, end of period	$(354)	$(299)	$(122)	$(128)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	$45	$54	$6	$9
Net actuarial (gain) loss	436	338	(13)	(19)
Total	$481	$392	$(7)	$(10)
Total accumulated benefit obligation for defined benefit pension plans	$1,531	$1,452		

(a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by $19 million as a result of the amendment. Gross benefits paid by the plans include $53 million of lump-sum cash payments made to participants during 2016 in connection with these offerings.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
AOCI	$111	$70	$ 8	$ 7
Regulatory assets/liabilities	370	322	(15)	(17)
Total	$481	$392	$ (7)	$ (10)

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2016	2015
Projected benefit obligation	$1,669	$1,588
Fair value of plan assets	1,315	1,289

	ABO in excess of plan assets	
	2016	2015
Accumulated benefit obligation	$1,531	$1,452
Fair value of plan assets	1,315	1,289

(LG&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2016	2015
Change in Benefit Obligation		
Benefit Obligation, beginning of period	$326	$331
Service cost	1	1
Interest cost	15	14
Plan amendments (a)	—	10
Actuarial (gain) loss	15	(15)
Gross benefits paid (a)	(28)	(15)
Benefit Obligation, end of period	329	326

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	Pension Benefits	
	2016	2015
Change in Plan Assets		
Plan assets at fair value, beginning of period	297	301
Actual return on plan assets	14	(2)
Employer contributions	35	13
Gross benefits paid	(28)	(15)
Plan assets at fair value, end of period	318	297
Funded Status, end of period	$(11)	$(29)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	$(11)	$(29)
Net amount recognized, end of period	$(11)	$(29)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	$25	$29
Net actuarial loss	110	95
Total	$135	$124
Total accumulated benefit obligation for defined benefit pension plan	$329	$326

(a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. The projected benefit obligation at December 31, 2015 increased by $10 million as a result of the amendment. Gross benefits paid by the plan include $14 million of lump-sum cash payments made to the participants during 2016 in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2016 and 2015.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2016	2015
Pension	$ 42	$ 26
Other postretirement benefits	76	77

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. As a result of the spinoff of PPL Energy Supply in 2015, pension and other postretirement plans were remeasured resulting in adjustments to PPL Electric's allocated balances of $56 million, reflected as a non-cash contribution on the Statement of Equity. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	2016	2015
Pension	$281	$183
Other postretirement benefits	72	67

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

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	2016	2015
Pension	$ 62	$ 46
Other postretirement benefits	40	42

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio on a plan basis based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio on a plan basis, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2016 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2016
	2016 (a)	2015	Target Asset Allocation (a)
Growth Portfolio	52 %	51 %	50 %
Equity securities	30 %	25 %	
Debt securities (b)	12 %	13 %	
Alternative investments	10 %	13 %	
Immunizing Portfolio	46 %	47 %	48 %

Debt securities (b)	43 %	42 %	
Derivatives	3 %	5 %	
Liquidity Portfolio	2 %	2 %	2 %
Total	100 %	100 %	100 %

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.
(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of $1.3 billion at December 31, 2016 and 2015 represents an interest of approximately 41% and 40% in the Master Trust.

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(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of $318 million and $297 million at December 31, 2016 and 2015 represents an interest of approximately 10% and 9% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$181	$181	$—	$ —	$225	$225	$—	$ —
Equity securities:								
U.S. Equity	152	152	—	—	172	172	—	—
U.S. Equity fund measured at NAV (a)	272	—	—	—	197	—	—	—
International equity fund at NAV (a)	551	—	—	—	454	—	—	—
Commingled debt measured at NAV (a)	546	—	—	—	514	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	381	381	—	—	501	492	9	—
Corporate	850	—	837	13	747	—	737	10
Other	8	—	8	—	14	—	14	—
Alternative investments:								
Commodities measured at NAV (a)	—	—	—	—	70	—	—	—
Real estate measured at NAV (a)	102	—	—	—	118	—	—	—
Private equity measured at NAV (a)	80	—	—	—	81	—	—	—
Hedge funds measured at NAV (a)	167	—			171	—	—	—
Derivatives:								
Interest rate swaps and swaptions	61	—	61	—	80	—	80	—
Other	3	—	3	—	11	—	11	—
Insurance contracts	27	—	—	27	32	—	—	32
PPL Services Corporation Master Trust assets, at fair value	3,381	$714	$909	$ 40	3,387	$889	$851	$ 42
Receivables and payables, net (b)	(15)				(49)			
401(h) accounts restricted for other postretirement benefit obligations	(123)				(111)			
Total PPL Services Corporation Master Trust pension assets	$3,243				$3,227			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2016 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 10	$ 32	$ 42
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	3	(6)	(3)
Balance at end of period	$ 13	$ 27	$ 40

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A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2015 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 21	$ 33	$ 54
Actual return on plan assets			
Relating to assets still held at the reporting date	—	2	2
Relating to assets sold during the period	(1)	—	(1)
Purchases, sales and settlements	(10)	(3)	(13)
Balance at end of period	$ 10	$ 32	$ 42

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices and exchange traded funds (ETFs).

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in commodities represent ownership interest of a commingled fund that is invested in a portfolio of exchange-traded futures and forward contracts in commodities to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious and industrial) using proprietary commodity trading strategies. Redemptions can be made the 15th calendar day and the last calendar day of the month with a specified notification period. The fund's fair value is based upon a value as calculated by the fund's administrator.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of 10 years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of $22 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed within 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2016	2015	2016
Asset Class			
U.S. Equity securities	48 %	48 %	45 %
Debt securities (a)	50 %	50 %	50 %
Cash and cash equivalents (b)	2 %	2 %	5 %
Total	100%	100%	100 %

(a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

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The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	$5	$ 5	$ —	$ —	$6	$ 6	$ —	$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	123	—	—	—	129	—	—	—
Commingled debt fund measured at NAV (a)	114	—	—	—	109	—	—	—
Debt securities:								
Municipalities	12	—	12	—	23	—	23	—
Total VEBA trust assets, at fair value	254	$ 5	$ 12	$ —	267	$ 6	$ 23	$ —
Receivables and payables, net (b)	1				1			
401(h) account assets	123				111			
Total other postretirement benefit plan assets	$378				$379			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities. The fair value measurements for these securities are based on recently executed transactions for identical securities or for similar securities.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

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The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2016	2015	2016
Asset Class			
Cash and cash equivalents	1 %	1 %	1 %
Equity securities			
U.K.	3 %	3 %	3 %
European (excluding the U.K.)	2 %	2 %	2 %
Asian-Pacific	2 %	2 %	2 %
North American	3 %	3 %	3 %
Emerging markets	3 %	4 %	1 %
Global equities	6 %	6 %	3 %
Currency	— %	1 %	— %
Global Tactical Asset Allocation	33 %	31 %	40 %
Debt securities (a)	41 %	40 %	39 %
Alternative investments	6 %	7 %	6 %
Total	100 %	100 %	100 %

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2016				December 31, 2015			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$42	$42	$—	$ —	$55	$55	$—	$ —
Equity securities measured at NAV (a) :								
U.K. companies	210	—	—	—	274	—	—	—
European companies (excluding the U.K.)	177	—	—	—	190	—	—	—
Asian-Pacific companies	140	—	—	—	132	—	—	—
North American companies	227	—	—	—	220	—	—	—
Emerging markets companies	209	—	—	—	284	—	—	—
Global Equities	466	—	—	—	500	—	—	—
Currency	—	—	—	—	39	—	—	—
Other	2,363	—	—	—	2,384	—	—	
Commingled debt:								
U.K. corporate bonds	—	—	—	—	2	—	—	—
U.K. gilts	—	—	—	—	3	—	—	—
Debt Securities:								
U.K. corporate bonds	2	—	2	—	364	—	364	—
U.K. gilts	2,940	—	2,940	—	2,645	—	2,645	—

Alternative investments:								
Real estate measured at NAV (a)	435	—	—	—	533	—	—	—
Fair value - U.K. pension plans	$7,211	$42	$2,942	$ —	$7,625	$55	$3,009	$ —

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds, which are considered in the Global Tactical Asset Allocation target.

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U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed $53 million to its U.S. pension plans in January 2017. No additional contributions are expected in 2017.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $17 million of benefit payments under these plans in 2017.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute $14 million to its other postretirement benefit plans in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2017	$ 251	$ 52	$ 1
2018	252	51	1
2019	261	51	1
2020	263	50	—
2021	267	49	—
2022-2026	1,344	228	2

(LKE)

While LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed $18 million to its pension plans in January 2017. No additional contributions are expected in 2017.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make $4 million of benefit payments under these plans in 2017.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected $14 million to its other postretirement benefit plan in 2017.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2017	$ 105	$ 14	$ —
2018	108	14	—
2019	110	15	1
2020	111	16	—
2021	113	16	—
2022-2026	569	82	2

(LG&E)

LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. There are no contributions expected to be made in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2017	$ 25
2018	25
2019	25
2020	25
2021	24
2022-2026	110

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuations performed as of March 31, 2013 and March 31, 2016. WPD expects to make contributions of approximately $389 million in 2017, including $98 million WPD contributed to its U.K. pension plans in January 2017. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2017	$ 314
2018	317
2019	322
2020	326
2021	329
2022-2026	1,693

Savings Plans (All Registrants)

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2016	2015	2014
PPL	$ 35	$ 34	$ 33
PPL Electric	6	6	6
LKE	17	16	15
LG&E	5	5	5
KU	4	4	4

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Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job-related qualifications or organizational changes. Until December 1, 2012, certain employees separated were eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. As of December 1, 2012, separation benefits for certain employees were changed to eliminate accelerated stock award vesting and enhanced pension and postretirement medical benefits. Also, the continuation of group health and welfare coverage was replaced with a single sum payment approximating the dollar amount of premium payments that would be incurred for continuation of group health and welfare coverage. Separation benefits are recorded when such amounts are probable and estimable.

See Note 8 for a discussion of separation benefits recognized in 2015 and 2014 related to the spinoff of PPL Energy Supply. Separation benefits were not significant in 2016.

12. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2016 and 2015, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2016				
Generating Plants				
Trimble County Unit 1	75.00 %	$ 407	$ 55	$ 1
Trimble County Unit 2	75.00 %	1,026	161	83
December 31, 2015				
Generating Plants				
Trimble County Unit 1	75.00 %	$ 399	$ 44	$ 6
Trimble County Unit 2	75.00 %	1,013	141	27
LG&E				
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	38.00 %	$ 40	$ 15	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00 %	55	12	1
Trimble County Unit 1	75.00 %	407	55	1
Trimble County Unit 2	14.25 %	214	32	43
Trimble County Units 5-6	29.00 %	30	8	1
Trimble County Units 7-10	37.00 %	71	17	1
Cane Run Unit 7	22.00 %	114	5	2
E.W. Brown Solar Unit	39.00 %	10	—	—
December 31, 2015				

Generating Plants					
E.W. Brown Units 6-7	38.00	%	$ 40	$ 12	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00	%	47	10	1
Trimble County Unit 1	75.00	%	399	44	6
Trimble County Unit 2	14.25	%	210	28	12
Trimble County Units 5-6	29.00	%	29	6	—
Trimble County Units 7-10	37.00	%	71	14	—
Cane Run Unit 7	22.00	%	115	1	1
E.W. Brown Solar Unit	39.00	%	—	—	4

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	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
KU				
December 31, 2016				
Generating Plants				
E.W. Brown Units 6-7	62.00 %	$ 65	$ 23	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	50	11	1
Trimble County Unit 2	60.75 %	812	129	40
Trimble County Units 5-6	71.00 %	74	19	—
Trimble County Units 7-10	63.00 %	121	29	1
Cane Run Unit 7	78.00 %	412	18	4
E.W. Brown Solar Unit	61.00 %	15	—	—
December 31, 2015				
Generating Plants				
E.W. Brown Units 6-7	62.00 %	$ 65	$ 19	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	43	9	1
Trimble County Unit 2	60.75 %	803	113	15
Trimble County Units 5-6	71.00 %	70	15	—
Trimble County Units 7-10	63.00 %	121	23	—
Cane Run Unit 7	78.00 %	411	6	5
E.W. Brown Solar Unit	61.00 %	—	—	6

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

(PPL)

All commitments, contingencies and guarantees associated with PPL Energy Supply and its subsidiaries were retained by Talen Energy and its subsidiaries at the spinoff date without recourse to PPL.

Energy Purchase Commitments (PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2017
Coal	2022
Coal Transportation and Fleeting Services	2024
Natural Gas Storage	2024
Natural Gas Transportation	2026

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LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses are projected as follows:

	LG&E	KU	Total
2017	$ 20	$ 9	$ 29
2018	20	9	29
2019	19	9	28
2020	20	9	29
2021	20	9	29
Thereafter	389	172	561
Total	$ 488	$ 217	$ 705

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2016	2015	2014
LG&E	$ 16	$ 15	$ 17
KU	7	7	8
Total	$ 23	$ 22	$ 25

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

(PPL and LKE)

WKE Indemnification

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss their common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E, under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

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Mill Creek Environmental Claims

In May 2014, the Sierra Club filed a citizen suit against LG&E in the U.S. District Court for the Western District of Kentucky for alleged violations of the Clean Water Act. The Sierra Club alleged that various discharges at the Mill Creek plant constituted violations of the plant's water discharge permit. The Sierra Club sought civil penalties, injunctive relief, costs and attorney's fees. The parties reached a proposed settlement in the matter in September 2016. LG&E has agreed to limited alterations to outfall facilities and discharge practices and to fund $1 million in environmental enhancement projects focused on tree planting and water quality in Kentucky. The settlement includes no finding or agreement of any violation of law by LG&E and does not involve fines or civil penalties. In December 2016, the court approved the proposed settlement which resolves the pending litigation.

(PPL, LKE and KU)

E.W. Brown Environmental Claims

In October 2015, KU received a notice of intent from Earthjustice and the Sierra Club informing certain federal and state agencies of the Sierra Club's intent to file a citizen suit, following expiration of the mandatory 60-day notification period, for alleged violations of the Clean Water Act. The claimants allege discharges at the E.W. Brown plant in violation of applicable rules and the plant's water discharge permit. The claimants assert that, unless the alleged discharges are promptly brought into compliance, it intends to seek civil penalties, injunctive relief and attorney's fees. In November 2015, the claimants submitted an amended notice of intent to add the Kentucky Waterways Alliance as a claimant. On October 26, 2016, the claimants submitted an additional notice of intent alleging management of waste in a manner that may present an imminent and substantial endangerment under the RCRA. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E. W. Brown plant, including increased capital or operating costs, if any.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Air Permit

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the Trimble County Unit 2 baseload coal-fired generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit, which in January 2010, were incorporated into a final revised permit issued by the Kentucky Division for Air Quality. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. PPL, LKE, LG&E and KU are unable to predict the outcome of this matter or the potential impact on the operations of the Trimble County plant, including increased capital or operating costs, if any.

(All Registrants)

Regulatory Issues

See Note 6 for information on regulatory matters related to utility rate regulation.

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Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

LG&E, KU and PPL Electric monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. In connection with the matters discussed below, it may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. The Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six criteria pollutants to protect public health and welfare. These concentration levels are known as NAAQS. The six criteria pollutants are carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter and sulfur dioxide.

Federal environmental regulations of these criteria pollutants require states to adopt implementation plans, known as state implementation plans, for certain pollutants, which detail how the state will attain the standards that are mandated by the relevant law or regulation. Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state

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implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

National Ambient Air Quality Standards (NAAQS)

Under the Clean Air Act, the EPA is required to reassess the NAAQS for certain air pollutants on a five-year schedule. In 2008, the EPA revised the NAAQS for ozone and proposed to further strengthen the standard in November 2014. The EPA released a new ozone standard on October 1, 2015. The states and the EPA will determine attainment with the new ozone standard through review of relevant ambient air monitoring data, with attainment or nonattainment designations scheduled no later than October 2017. States are also obligated to address interstate transport issues associated with new ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. States that are not in the ozone transport region, including Kentucky, worked together to evaluate the need for further nitrogen oxide reductions from fossil-fueled plants with SCRs. Based on regulatory developments to date, PPL, LKE, LG&E, and KU do not anticipate requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

In 2010, the EPA finalized revised NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. Based on regulatory developments to date, PPL, LKE, LG&E and KU expect that certain previously required compliance measures, such as upgraded or new sulfur dioxide Scrubbers and additional sulfur dioxide limits at certain plants and the retirement of coal-fired generating units at LG&E's Cane Run plant and KU's Green River plant, are sufficient to achieve compliance with the new sulfur dioxide and ozone standards.

Mercury and Air Toxics Standards (MATS)

In February 2012, the EPA finalized the MATS rule requiring reductions of mercury and other hazardous air pollutants from fossil-fuel fired power plants, with an effective date of April 16, 2012. In a subsequent judicial challenge, the U.S. Supreme Court (Supreme Court) held that the EPA failed to properly consider costs when deciding to regulate hazardous air emissions from power plants under MATS. The Supreme Court remanded the matter to the D.C. Circuit Court which, in December 2015, remanded the rule to the EPA without vacating it. The EPA has proposed a supplemental finding regarding costs of the rule. The EPA's MATS rule remains in effect during the pendency of the ongoing proceedings.

LG&E and KU have installed significant controls in response to the MATS rule and in conjunction with compliance with other environmental requirements, including fabric-filter baghouses, upgraded Scrubbers or chemical additive systems for which appropriate KPSC authorization and/or ECR treatment has been received. LG&E and KU have received KPSC approval for a compliance plan providing for installation of additional MATS-related controls; however, the estimated cost of these controls is not expected to be significant for either LG&E or KU. See Note 6 for additional information.

New Source Review (NSR)

The NSR litigation brought by the EPA, states and environmental groups against coal-fired generating plants in past years continues to proceed through the courts. Although none of this litigation directly involves PPL, LKE, LG&E or KU, it can influence the permitting of large capital projects at LG&E's and KU's power plants, the costs of which cannot presently be determined but could be significant.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, the President announced that the United States, Canada and Mexico have established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of greenhouse gas (GHG) emissions from both developed and developing nations. Although the

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agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. has committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, the new U.S. presidential administration has expressed an intention to review existing Climate Change commitments to determine if changes are warranted. PPL, LKE, LG&E, and KU cannot predict the outcome of such review or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act

As further described below, the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states and industry groups. On February 9, 2016, the Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the Supreme Court if a writ of certiorari is filed and granted.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as the EPA proposed in 2012 and is not continuously achievable. The preclusion of new coal-fired plants and the compliance difficulties posed for new natural gas-fired plants could have a significant industry-wide impact.

The EPA's Clean Power Plan

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan is ultimately upheld and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. Various states, industry groups and individual companies including LKE have filed petitions for reconsideration with EPA and petitions for review with the D.C. Circuit Court challenging the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule pending the D.C. Circuit Court's review. A ruling from the D.C. Circuit Court is expected in 2017. The new U.S. presidential administration has expressed an intention to review the Clean Power Plan and related regulatory developments to determine if changes are warranted. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the new U.S. presidential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards shall be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable

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energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussion between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

Coal Combustion Residuals (CCRs)

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. Kentucky has proposed a state rule aimed at reflecting the requirements of the federal rule.

LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, LG&E and KU also received KPSC approval for their plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015 and 2016. See Note 19 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

Effluent Limitations Guidelines (ELGs)

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion

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residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA, but the requirements of the rule must be fully implemented no later than 2023. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to fully estimate compliance costs or timing at this time, although certain preliminary estimates are included in current capital forecasts for applicable periods. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Clean Water Act Section 316(b)

The EPA's final 316(b) rule for existing facilities became effective in October 2014, and regulates cooling water intake structures and their impact on aquatic organisms. The rule requires existing facilities to choose among several options to reduce the impact on aquatic organisms that become trapped against water intake screens (impingement) and to determine the intake structure's impact on aquatic organisms pulled through a plant's cooling water system (entrainment). Based on studies conducted by LG&E and KU to date, all plants will incur only insignificant operational costs. In addition, LG&E's Mill Creek Unit 1 is expected to incur capital costs. PPL, LKE, LG&E and KU do not expect compliance costs, which are subject to rate recovery, to be significant.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E or KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonable possible losses cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Waters of the United States (WOTUS)

The U.S. Court of Appeals for the Sixth Circuit has issued a stay of the EPA's rule on the definition of WOTUS pending the court's review of the rule. The effect of the stay is that the WOTUS rule is not in effect anywhere. The ultimate outcome of the court's review of the rule remains uncertain. Because of the strict permitting programs already in place in Kentucky and Pennsylvania, the Registrants do not expect the rule to have a significant impact on their operations.

Other Issues

On June 22, 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. The first, scheduled for March 2017, relates to the use of PCBs in small capacitors and fluorescent ballasts in schools and day care centers. The second, scheduled for October 2017, relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

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PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack information on the condition of such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

At December 31, 2016, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

European Union Creosote Ban (PPL)

In 2011, the European Commission amended the European Union Biocides Directive to ban the use of creosote in contact with soil. Creosote is a wood preservative used to extend the life of wooden poles that support power lines. Although European Union member countries were required to pass implementing laws by 2012, the U.K. has not passed an implementing law and there are no legal penalties for failing to do so. The recent U.K. referendum in favor of the U.K.'s departure from the European Union further reduces the likelihood that the U.K. will implement the European Union directive. In the unlikely event that the U.K. were to ban the use of creosote, WPD's creosote-treated wood poles would need to be replaced with an acceptable alternative at the time of routine replacement. Although the aggregate cost to replace poles could be significant, it would be incurred as poles are replaced in the ordinary course and would be subject to rate recovery. WPD has 1.4 million wood poles in its system. There are currently no alternative wood preservatives available that are acceptable to the industry and/or regulators.

Other

(All Registrants)

Labor Union Agreements

For PPL and PPL Electric, labor agreement negotiations with the IBEW commenced in February 2017. The current three-year agreement expires in May 2017.

LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2017 and August 2018. The KU IBEW agreement includes a wage reopener in 2017. KU has 54 employees that are represented by a USWA labor union, under an agreement that expires in August 2017.

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At December 31, 2016, the expiring labor agreements covered the following.

	Number of Union Employees	Percentage of Total Workforce
PPL	2,173	17 %
PPL Electric	1,150	63 %
LKE	819	23 %
LG&E	696	68 %
KU	123	13 %

The Registrants cannot predict the outcome of the union labor negotiations.

Guarantees and Other Assurances

(All Registrants)

In the normal course of business, the Registrants enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries engage.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of December 31, 2016. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at December 31, 2016 was $22 million for PPL and $17 million for LKE. The total recorded liability at December 31, 2015 was $25 million for PPL and $18 million for LKE. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at December 31, 2016		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	$ 10	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	104	(c)	
PPL Electric			
Guarantee of inventory value	14	(d)	2018
LKE			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023

LG&E and KU	
LG&E and KU guarantee of shortfall related to OVEC	(f)

(a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

(b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations

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under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 2016, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.

(d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.

(e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of $200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of $100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnification obligations in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have also conducted certain settlement discussions, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

(f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was $123 million at December 31, 2016, consisting of LG&E's share of $85 million and KU's share of $38 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs and accelerated maturities of OVEC's existing short and long-term debt. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of $225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

14. Related Party Transactions

PLR Contracts/Purchases of Accounts Receivable (PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus was awarded a portion of the PLR generation supply through these competitive solicitations. The purchases from PPL EnergyPlus are included in PPL Electric's Statements of Income as "Energy purchases from affiliate" through May 31, 2015, the period through which PPL Electric and PPL EnergyPlus were affiliated entities. As a result of the June 1, 2015 spinoff of PPL Energy Supply and creation of Talen Energy, PPL EnergyPlus (renamed Talen Energy Marketing) is no longer an affiliate of PPL Electric. PPL Electric's purchases from Talen Energy Marketing subsequent to May 31, 2015 are included as purchases from an unaffiliated third party.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including Talen Energy Marketing. See Note 8 for additional information regarding the spinoff of PPL Energy Supply.

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail customers and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

Support Costs (PPL Electric, LKE, LG&E and KU)

PPL Services, PPL EU Services and LKS provide their respective PPL, PPL Electric and LKE subsidiaries and each other with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2016	2015	2014
PPL Electric from PPL Services	$132	$125	$151
LKE from PPL Services	18	16	15
PPL Electric from PPL EU Services	69	60	—
LG&E from LKS	178	155	140
KU from LKS	194	185	165

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings (LKE)

LKE maintains a $225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2016 and 2015, $163 million and $54 million, respectively, were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2016 and 2015 was 2.12% and 1.74%. Interest expense on the revolving line of credit was not significant for 2016, 2015 or 2014.

LKE maintains an agreement with a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2016 and 2015. The interest rate on the
loan based on the PPL affiliate's credit rating is currently equal to one-month LIBOR plus a spread. Interest income on this note was not significant for 2016, 2015 or 2014.

In November 2015, LKE entered into a $400 million ten-year-note with a PPL affiliate with an interest rate of 3.5%. The proceeds were used to repay the entire $400 million principal amount of its 2.125% Senior Unsecured Notes which matured in November 2015. At December 31, 2016 and 2015, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was $14 million for 2016. Interest expense on this note was not significant for 2015.

Intercompany Derivatives (LKE, LG&E and KU)

Periodically, LG&E and KU enter into forward-starting interest rate swaps with PPL. These hedging instruments have terms identical to forward-starting swaps entered into by PPL with third parties. See Note 17 for additional information on intercompany derivatives.

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Other (PPL Electric, LKE, LG&E and KU)

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

	2016	2015	2014
Other Income			
Economic foreign currency exchange contracts (Note 17)	$384	$122	$121
Interest income	3	4	1
AFUDC - equity component	19	14	11
Miscellaneous	6	6	7
Total Other Income	412	146	140
Other Expense			
Charitable contributions	9	21	27
Miscellaneous	13	17	8
Total Other Expense	22	38	35
Other Income (Expense) - net	$390	$108	$105

16. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During 2016 and 2015, there were no transfers between Level 1 and Level 2. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$341	$341	$—	$ —	$836	$836	$—	$ —

Restricted cash and cash equivalents (a)	26	26	—	—	33	33	—	—
Price risk management assets (b):								
Foreign currency contracts	211	—	211	—	209	—	209	—
Cross-currency swaps	188	—	188	—	86	—	86	—
Total price risk management assets	399	—	399	—	295	—	295	—
Auction rate securities (c)	—	—	—	—	2	—	—	2
Total assets	$766	$367	$399	$ —	$1,166	$869	$295	$ 2

	December 31, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	$31	$ —	$ 31	$ —	$71	$ —	$ 71	$ —
Foreign currency contracts	27	—	27	—	1	—	1	—
Total price risk management liabilities	$58	$ —	$ 58	$ —	$72	$ —	$ 72	$ —
PPL Electric								
Assets								
Cash and cash equivalents	$13	$ 13	$ —	$ —	$47	$ 47	$ —	$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	$15	$ 15	$ —	$ —	$49	$ 49	$ —	$ —
LKE								
Assets								
Cash and cash equivalents	$13	$ 13	$ —	$ —	$30	$ 30	$ —	$ —
Cash collateral posted to counterparties (d)	3	3	—	—	9	9	—	—
Total assets	$16	$ 16	$ —	$ —	$39	$ 39	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$31	$ —	$ 31	$ —	$47	$ —	$ 47	$ —
Total price risk management liabilities	$31	$ —	$ 31	$ —	$47	$ —	$ 47	$ —
LG&E								
Assets								
Cash and cash equivalents	$5	$ 5	$ —	$ —	$19	$ 19	$ —	$ —
Cash collateral posted to counterparties (d)	3	3	—	—	9	9	—	—
Total assets	$8	$ 8	$ —	$ —	$28	$ 28	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$31	$ —	$ 31	$ —	$47	$ —	$ 47	$ —
Total price risk management liabilities	$31	$ —	$ 31	$ —	$47	$ —	$ 47	$ —
KU								
Assets								
Cash and cash equivalents	$7	$ 7	$ —	$ —	$11	$ 11	$ —	$ —
Total assets	$7	$ 7	$ —	$ —	$11	$ 11	$ —	$ —

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

(b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(c) Included in "Other current assets" on the Balance Sheets.

(d) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of

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default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Nonrecurring Fair Value Measurements (PPL)

See Note 8 for information regarding the estimated fair value of the Supply segment's net assets as of the June 1, 2015 spinoff date.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL	$18,326	$21,355	$19,048	$21,218
PPL Electric	2,831	3,148	2,828	3,088
LKE	5,065	5,439	5,088	5,384
LG&E	1,617	1,710	1,642	1,704
KU	2,327	2,514	2,326	2,467

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

17. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and

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KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.

- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

Commodity price risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which, is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with defined benefit plans. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery mechanisms in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thus mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

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Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a $19 million obligation to return cash collateral under master netting arrangements at December 31, 2016 and no obligation to return cash collateral at December 31, 2015.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2016 and 2015.

PPL, LKE and LG&E posted $3 million and $9 million of cash collateral under master netting arrangements at December 31, 2016 and 2015.

KU did not post any cash collateral under master netting arrangements at December 31, 2016 and 2015.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. Various financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges

(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at December 31, 2016.

For 2016, 2015 and 2014, hedge ineffectiveness associated with interest rate derivatives was insignificant.

At December 31, 2016, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes. In May 2016, $460 million of WPD's U.S. dollar-denominated senior notes were repaid upon maturity and $460 million notional value of cross-currency interest rate swap contracts matured. PPL recorded a $46 million gain upon settlement of the cross-currency interest rate swap contracts, which largely offset a loss recorded on the revaluation of U.S. dollar-denominated senior notes.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2016 and an insignificant amount in 2014.

As a result of the June 1, 2015 spinoff of PPL Energy Supply, all PPL cash flow hedges associated with PPL Energy Supply were ineffective and discontinued and therefore, reclassified into earnings during the second quarter of 2015 and reflected in discontinued operations for 2015. See Note 8 for additional information. PPL had no other cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2015.

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At December 31, 2016, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is $53 million. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. In December 2016, a swap with a notional amount of $32 million was terminated. A cash settlement of $9 million was paid on the terminated swap. The settlement is included in noncurrent regulatory assets on the Balance Sheet and in "Cash Flows from Operating Activities" on the Statement of Cash Flows. At December 31, 2016, LG&E held contracts with a notional amount of $147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no such contracts outstanding at December 31, 2016.

At December 31, 2016 and 2015, PPL had $21 million and $19 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2016, the total exposure hedged by PPL was approximately £1.9 billion (approximately $2.6 billion based on contracted rates). These contracts had termination dates ranging from January 2017 through December 2018.

In the third quarter of 2016, PPL settled foreign currency hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of $310 million of cash entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately $2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's and KU's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2016 and 2015.

See Note 1 for additional information on accounting policies related to derivative instruments.

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(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	December 31, 2016				December 31, 2015			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps (b)	$—	$ —	$ —	$ 4	$—	$ 24	$ —	$ 5
Cross-currency swaps (b)	32	—	—	—	35	—	—	—
Foreign currency contracts	—	—	31	21	10	—	94	1
Total current	32	—	31	25	45	24	94	6
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	27	—	—	—	42
Cross-currency swaps (b)	156	—	—	—	51	—	—	—
Foreign currency contracts	—	—	180	6	—	—	105	—
Total noncurrent	156	—	180	33	51	—	105	42
Total derivatives	$ 188	$ —	$ 211	$ 58	$ 96	$ 24	$ 199	$ 48

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2016				
Cash Flow Hedges:				
Interest rate swaps	$ (21)	Interest Expense	$ (7)	$ —
Cross-currency swaps	130		116	—

		Other Income (Expense) - net		
		Interest Expense	3	—
Total	$ 109		$ 112	$ —
Net Investment Hedges:				
Foreign currency contracts	$ 2			
2015				
Cash Flow Hedges:				
Interest rate swaps	$ (34)	Interest Expense	$ (11)	$ —
		Discontinued operations	—	(77)
Cross-currency swaps	60	Other Income (Expense) - net	49	—
		Interest Expense	2	—
Commodity contracts		Discontinued operations	13	7
Total	$ 26		$ 53	$ (70)
Net Investment Hedges:				
Foreign currency contracts	$ 9			

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2014				
Cash Flow Hedges:				
Interest rate swaps	$ (91)	Interest Expense	$ (18)	$ 2
Cross-currency swaps	58	Other Income (Expense) - net	57	—
		Interest Expense	4	—
Commodity contracts		Discontinued operations	42	—
Total	$ (33)		$ 85	$ 2
Net Investment Hedges:				
Foreign currency contracts	$ 23			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2016	2015	2014
Foreign currency contracts	Other Income (Expense) - net	$384	$122	$121
Interest rate swaps	Interest Expense	(7)	(8)	(8)
	Total	$377	$114	$113

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	$ —	$(22)	$(66)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	$ 7	$ 1	$(12)

(LKE)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	$ —	$(22)	$(66)

(LG&E)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory asset - noncurrent	$ —	$ (11)	$ (33)

(KU)

The following table presents the pre-tax effect of derivative instruments designated as cash flow hedges that are recognized in regulatory assets. All derivative instruments designated as cash flow hedges were terminated in 2015 and there is no activity in the current period.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	$ —	$ (11)	$ (33)

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(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities (a):				
Interest rate swaps	$ —	$ 4	$ —	$ 5
Total current	—	4	—	5
Noncurrent:				
Price Risk Management Assets/Liabilities (a):				
Interest rate swaps	—	27	—	42
Total noncurrent	—	27	—	42
Total derivatives	$ —	$ 31	$ —	$ 47

(a) Represents the location on the Balance Sheets.

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets.

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Interest Expense	$ (7)	$ (8)	$ (8)

Derivative Instruments	Location of Gain (Loss)	2016	2015	2014
Interest rate swaps	Regulatory assets - noncurrent	$ 7	$ 1	$ (12)

(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

Assets				Liabilities			
	Eligible for Offset				Eligible for Offset		
Gross	Derivative	Cash	Net	Gross	Derivative	Cash	Net

		Instruments	Collateral Received			Instruments	Collateral Pledged	
December 31, 2016								
Treasury Derivatives								
PPL	$399	$ 27	19	$353	$58	$ 27	$ 3	$28
LKE	—	—	—	—	31	—	3	28
LG&E	—	—	—	—	31	—	3	28

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	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2015								
Treasury Derivatives								
PPL	$295	$ 25	$ —	$270	$72	$ 25	$ 9	$38
LKE	—	—	—	—	47	—	9	38
LG&E	—	—	—	—	47	—	9	38

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features, which when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At December 31, 2016, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	$ 13	$ 13	$ 13
Aggregate fair value of collateral posted on these derivative instruments	3	3	3
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	10	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Total	
	2016	2015	2016	2015	2016	2015
Balance at beginning of period (a)	$2,888	$3,005	$662	$662	$3,550	$3,667
Effect of foreign currency exchange rates	(490)	(117)			(490)	(117)
Balance at end of period (a)	$2,398	$2,888	$662	$662	$3,060	$3,550

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(a) There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$405	$ 325	$407	$ 300
Land and transmission rights	362	115	337	111
Emission allowances/RECs (b)	2	—	5	—
Licenses and other	6	2	10	5
Total subject to amortization	775	442	759	416
Not subject to amortization due to indefinite life:				
Land and transmission rights	19	—	33	—
Easements (c)	348	—	303	—
Total not subject to amortization due to indefinite life	367	—	336	—
Total	$1,142	$ 442	$1,095	$ 416

(a) Gross carrying amount includes the fair value at the acquisition date of the OVEC power purchase contract and coal contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL. Offsetting regulatory liabilities were recorded related to these contracts, which are being amortized over the same period as the intangible assets, eliminating any income statement impact. This is referred to as "regulatory offset" in the tables below. See Note 6 for additional information.

(b) Emission allowances/RECs are expensed when consumed or sold; therefore, there is no accumulated amortization.

(c) The increase during 2016 was primarily from increases at WPD.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2016	2015	2014
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	24	51	47
Total	$ 30	$ 57	$ 53

Amortization expense for each of the next five years, excluding insignificant amounts for consumption of emission allowances/RECs, is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with no regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 6
Intangible assets with regulatory offset	9	9	9	8	8
Total	$ 15	$ 15	$ 15	$ 14	$ 14

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(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	$341	$ 112	$316	$ 108
Licenses and other	3	1	4	1
Total subject to amortization	344	113	320	109
Not subject to amortization due to indefinite life:				
Land and transmission rights	20	—	33	—
Total	$364	$ 113	$353	$ 109

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2016, 2015 and 2014 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$269	$ 269	$269	$ 252
Land and transmission rights	21	3	21	2
Emission allowances (b)	—	—	3	—
OVEC power purchase agreement (c)	126	49	126	42
Total subject to amortization	$416	$ 321	$419	$ 296

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.

(b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.

(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2016	2015	2014

Intangible assets with no regulatory offset	$ 1	$ —	$ —
Intangible assets with regulatory offset	24	51	47
Total	$ 25	$ 51	$ 47

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	$ 9	$ 9	$ 9	$ 8	$ 8

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(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$124	$ 124	$124	$ 116
Land and transmission rights	7	1	7	1
Emission allowances (b)	—	—	1	—
OVEC power purchase agreement (c)	87	34	87	29
Total subject to amortization	$218	$ 159	$219	$ 146

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.

(b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.

(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2016	2015	2014
Intangible assets with regulatory offset	$ 13	$ 24	$ 23

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	$ 6	$ 6	$ 6	$ 6	$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$145	$ 145	$145	$ 136
Land and transmission rights	14	2	14	1
Emission allowances (b)	—	—	2	—
OVEC power purchase agreement (c)	39	15	39	13
Total subject to amortization	$198	$ 162	$200	$ 150

(a) Gross carrying amount represents the fair value at the acquisition date of coal contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which was amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Emission allowances are expensed when consumed or sold; therefore, there is no accumulated amortization.
(c) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 6 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

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Amortization expense was as follows:

	2016	2015	2014
Intangible assets with no regulatory offset	$ 1	$ —	$ —
Intangible assets with regulatory offset	11	27	24
Total	$ 12	$ 27	$ 24

Amortization expense for each of the next five years is estimated to be:

	2017	2018	2019	2020	2021
Intangible assets with regulatory offset	$ 3	$ 3	$ 3	$ 2	$ 2

19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

The changes in the carrying amounts of AROs were as follows.

	PPL		LKE		LG&E		KU	
	2016	2015	2016	2015	2016	2015	2016	2015
ARO at beginning of period	$							