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PPL CORPORATION 2020 ANNUAL REPORT

PPL CORPORATION AT A GLANCE

Headquarters:
Allentown, Pa.

$7.6 billion
in annual revenue

Total assets of
$48 billion

Market
capitalization of
$21.7 billion

Seven **regulated**
utility companies

More than **10 million**
utility customers
(electric and gas)
in the U.S. and U.K.

Approximately
219,000 miles
of electric lines

133 billion
kilowatt-hours of
electricity delivered

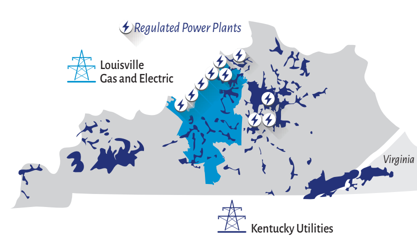
About
7,500 megawatts
of generation capacity*

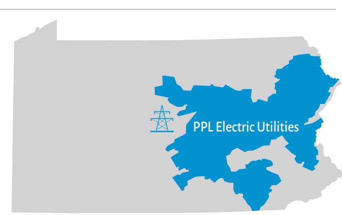
More than
12,000 full-time
employees

Recognized
leader in
customer satisfaction

As of Dec. 31, 2020.
**Net summer capacity - LG&E - KU ownership or other interest.*

MAJOR BUSINESS SEGMENTS	KEY INFORMATION
U.K. Regulated	PPL's U.K. segment consists of the regulated electricity distribution operations of Western Power Distribution, which serves 8 million customers in central and southwest England and south Wales.*
Kentucky Regulated	PPL's Kentucky segment consists primarily of the regulated electricity and natural gas operations of Louisville Gas and Electric Company and Kentucky Utilities Company, which serve 1.3 million customers in Kentucky and Virginia and operate about 7,500 megawatts of regulated generating capacity.
Pennsylvania Regulated	PPL's Pennsylvania segment consists of the regulated electricity delivery operations of PPL Electric Utilities Corporation, which serves approximately 1.4 million customers in eastern and central Pennsylvania.





**On March 18, 2021, PPL announced an agreement to sell Western Power Distribution (WPD) to National Grid and a separate agreement to acquire National Grid's Rhode Island electric and gas utility, The Narragansett Electric Company. The WPD sale is expected to close within four months of the date of announcement and the Narragansett Electric acquisition within a year. See our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2021 for additional information regarding these agreements.*

DEAR SHAREOWNERS,

For 100 years, PPL has been a force for good in the communities we serve, putting people at the heart of all we do and providing energy that is essential to our quality of life.

In 2020, COVID-19 reinforced the vital role we play in our customers' lives. As hospitals responded to the public health crisis, as families and businesses struggled, as homes became offices and classrooms, and as our communities coped with economic disruption, those we served counted on us more than ever.

In these unprecedented times, PPL delivered.

We provided electricity and natural gas safely and reliably to more than 10 million customers from the U.S. to the U.K. We delivered on our financial commitments to shareowners. We provided strong support in our communities. We remained committed to our long-term strategy of investing in the future even as we navigated an uncertain present. And we took bold steps to unlock shareowner value and better position PPL for long-term growth and success.

Below are highlights of our 2020 performance:

Responding effectively to COVID-19

At the outset of the COVID-19 outbreak, we activated our pandemic plans and responded quickly and aggressively to implement social distancing, protect our employees and customers, and ensure business continuity.

In March, we adopted work-from-home measures for approximately 40% of our workforce and adjusted work processes and procedures to maximize social distancing for those still reporting to the workplace due to the nature of their jobs. We acted early to ensure that our critical suppliers were permitted to operate during emergency declarations. We kept employees informed and shared best practices across business lines in our approach to the pandemic.

While well-positioned to weather the economic downturn due to our low-risk, rate-regulated business model, we also took steps to strengthen our financial position, including bolstering our liquidity position by $1 billion to guard against any disruptions to capital markets.

As a result of our effective response, PPL served our customers in 2020 without missing a beat.

Achieving strong operational performance and customer satisfaction

We maintained strong transmission and distribution reliability across PPL, with customers experiencing, on average, fewer interruptions and shorter outage durations than in 2019 – this despite the challenges presented by COVID-19. In addition, we maintained exceptional generation reliability in Kentucky. And across PPL, we responded quickly and effectively to severe weather, including Tropical Storm Isaias.

Vincent Sorgi
President and Chief Executive Officer

Craig A. Rogerson
Independent Chair of the Board

As we remained focused on reliability, we provided a superior customer experience. We received three new J.D. Power awards for customer satisfaction in the U.S., raising our total to 54. In addition, we achieved over 9-out-of-10 ratings from U.K. customers and earned maximum incentive rewards under Ofgem's Broad Measure of Customer Satisfaction.

At the same time, we continued to invest in infrastructure to further improve our service to customers moving forward. Building on the $27 billion we invested over the past decade, we completed more than $3 billion in infrastructure improvements during 2020 to strengthen grid resilience, incorporate new technology and advance our clean energy strategy.

Delivering on our financial commitments

As we excelled operationally, we also managed significant headwinds to deliver on our financial commitments to shareowners.

We achieved earnings results within our guidance range despite approximately $130 million of unfavorable impact due to COVID-19 and milder than normal weather. In addition, we delivered on our commitment to return capital to shareowners, increasing our dividend for the 18th time in 19 years.

Unfortunately, PPL's continued operational excellence did not translate to strong stock price performance in 2020, as the utility sector trailed the broader S&P 500 and PPL's stock performance lagged its peers, challenged by political and regulatory uncertainty in the U.K.

Our Board of Directors and our leadership team are fully committed to changing this dynamic and improving PPL's total shareowner return.

Positioning PPL for future success

With this in mind, in August we launched a formal process to sell our U.K. utility business, Western Power Distribution (WPD), and reposition PPL as a high growth, U.S.-focused energy company.

This resulted in our recently announced agreements to sell WPD to National Grid for £7.8 billion, or $10.2 billion*, and acquire National Grid's Rhode Island electric and gas utility for $ 3.8 billion.

These transactions, which achieve all the objectives we set at the outset of our sale process, will unlock value for our shareowners, strengthen our credit metrics, enhance long-term earnings growth and predictability, and provide us greater financial flexibility to invest in sustainable energy solutions.

This strategic repositioning reflects our Board's continuous focus on delivering shareowner value. We expect to complete the WPD sale within four months of our March 18 announcement and the Rhode Island acquisition within one year.

Advancing our clean energy strategy

In 2020, we also advanced our clean energy strategy to:

- Decarbonize our owned generation.
- Enable third-party decarbonization through transmission and distribution investments.
- Decarbonize our non-generation operations.
- Expand research and development in clean energy technology.

At the outset of the year, we established a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and accelerated our previous 70% goal by 10 years to 2040. We also adopted goals to electrify our fleet vehicles.

Throughout the year, we invested in our networks to enable increased electrification and large-scale additions of distributed energy resources in the future. In Kentucky, we secured regulatory approval for a 100-megawatt solar power purchase agreement (PPA) to meet increasing customer demand for clean energy options. Elsewhere, our Safari Energy subsidiary added more than 90 megawatts of owned solar capacity contracted via long-term PPAs.

In addition, we joined a five-year industry initiative to accelerate the development of low-carbon energy technology and advance affordable pathways to economy-wide decarbonization. We did so because we recognize that going further faster than the goals we've set requires new technologies and systems that can be deployed safely, reliably and affordably.

Making a positive impact on society

As we focused on these achievements, we also remained committed to supporting our communities beyond the energy we provide.

We offered customers flexible payment options and assistance with their energy bills in response to the impacts COVID-19 has had on our economy and our customers' financial health.

**Net of transaction-related taxes and fees, and based on an average foreign currency rate of $1.35/£ as of March 12, 2021, inclusive of hedges.*

Our companies and foundations donated more than $2 million to support COVID-19 relief for individuals and families. Our employee and retiree charitable giving campaigns in the U.S. raised a record $7 million in pledges to strengthen our communities. And our companies and foundations donated more than $12 million overall.

At the same time, PPL continued to make a positive impact by supporting diversity, equity and inclusion (DEI) as the world witnessed acts of racism and injustice that spurred unrest and highlighted inequities in our society.

We adopted a new enterprise-wide DEI strategy and commitments. We conducted focused discussions on race and social justice that will inform our efforts moving forward. PPL Foundation expanded its mission to support racial justice and equity initiatives more directly and launched a new scholarship program to encourage diverse candidates to pursue careers in engineering, IT, technical and trade roles. In addition, we continued to engage with community coalitions focused on race and equity issues.

These efforts will continue as we seek to support meaningful change and progress in the communities we serve.

Looking forward

In closing, we are tremendously proud of how your company performed in 2020, and of the strength, determination, creativity, compassion and resilience that our team of more than 12,000 displayed from the U.S. to the U.K. While we recognize our work is not done in seeing this pandemic through, we truly believe better days are ahead, and we are confident that PPL will emerge from this pandemic even stronger.

Looking ahead, our strategy is sharper and more focused than ever. We aim to achieve industry-leading performance in safety, reliability, customer satisfaction and operational efficiency; to advance a clean energy transition while maintaining affordability and reliability; to maintain a strong financial foundation and create long-term value for our shareowners; to foster a diverse and exceptional workplace; and to build strong communities in the areas we serve.

This is what EnergyForward means to us, and we're excited about our future as we begin a new century of service. We thank you for your continued investment in PPL, and we appreciate the trust you have placed in us.

Sincerely,

Vincent Sorgi
President and
Chief Executive Officer

Craig A. Rogerson
Independent Chair of the Board

2020 FINANCIAL HIGHLIGHTS

For the years ended December 31

FINANCIAL	2020	2019
Operating revenues (millions)	**$7,607**	$7,769
Net income (millions)	**$1,469**	$1,746
Earnings from ongoing operations (millions) [(a)]	**$1,847**	$1,806
Total assets (millions) [(b)]	**$48,116**	$45,680
Earnings per share - Diluted	**$1.91**	$2.37
Earnings from ongoing operations per share - Diluted [(a)]	**$2.40**	$2.45
Dividends declared per share	**$1.66**	$1.65
Book value per share [(b,c)]	**$17.39**	$16.93
Market price per share [(b)]	**$28.20**	$35.88
Market price/book value ratio [(b)]	**162%**	212%
Dividend yield	**5.9%**	4.6%
Dividend payout ratio [(d)]	**87%**	70%
Dividend payout ratio - earnings from ongoing operations [(d,e)]	**69%**	67%
Price/earnings ratio [(d)]	**14.8**	15.1
Price/earnings ratio - earnings from ongoing operations [(d,e)]	**11.8**	14.6
Return on common equity	**11.1%**	14.3%
Return on common equity - earnings from ongoing operations [(e)]	**14.0%**	14.8%

OPERATING - U.S. ELECTRICITY SALES (GWh)		
Retail delivered	**64,482**	67,238
Wholesale supplied [(f)]	**542**	1,154

OPERATING - U.K. ELECTRICITY SALES (GWh)		
United Kingdom	**68,133**	72,061

(a) Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the statutory tax rate of the entity where the activity is recorded. See "Reconciliation of Net Income to Earnings from Ongoing Operations" on page 34 (millions of dollars) and page IV (per share) of this report.

(b) End of period.

(c) Based on 768,907 and 767,233 shares of common stock outstanding (in thousands) at December 31, 2020, and December 31, 2019.

(d) Based on diluted earnings per share.

(e) Calculated using earnings from ongoing operations, which is a non-GAAP financial measure that includes adjustments described above in footnote (a).

(f) Represents FERC-regulated municipal and unregulated off-system sales. KU's service to eight municipalities terminated effective April 30, 2019. KU continues to provide service to two municipalities.

RECONCILIATION OF FINANCIAL MEASURES (UNAUDITED)

Reconciliation of Earnings from Ongoing Operations

	(Per Share - Diluted)					
	U.K. Reg.	**KY Reg.**	**PA Reg.**	**Corp. & Other**	**Final 2020**	Final 2019
Net Income	**$0.89**	**$0.54**	**$0.65**	**$(0.17)**	**$1.91**	$2.37
Less: Special Items (expense) benefit:*						
Foreign currency economic hedges	**(0.27)**	**-**	**-**	**-**	**(0.27)**	(0.06)
Talen litigation costs	**-**	**-**	**-**	**(0.02)**	**(0.02)**	(0.01)
COVID-19 impact	**(0.02)**	**(0.01)**	**-**	**-**	**(0.03)**	-
U.K. Tax rate change	**(0.14)**	**-**	**-**	**-**	**(0.14)**	-
Strategic corporate initiatives	**(0.01)**	**-**	**-**	**(0.01)**	**(0.02)**	-
Executive retirement benefits	**-**	**-**	**-**	**(0.01)**	**(0.01)**	-
Other	**-**	**-**	**-**	**-**	**-**	(0.01)
Total Special Items	**(0.44)**	**(0.01)**	**-**	**(0.04)**	**(0.49)**	(0.08)
Earnings from Ongoing Operations	**$1.33**	**$0.55**	**$0.65**	**$(0.13)**	**$2.40**	$2.45

**See Combined Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on special items.*

Statements contained in this Annual Report, including statements with respect to future earnings and corporate strategy, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in these statements. Any forward-looking statements should be considered in light of the factors and other matters discussed in "Item 1A. Risk Factors" and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Corporation's 2020 Annual Report on Form 10-K and other reports on file with the Securities and Exchange Commission.

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Form 10-K for the year ended Dec. 31, 2020, was filed by PPL Corporation with the U.S. Securities and Exchange Commission on Feb. 18, 2021. Please visit PPL Corporation's website, www.pplweb.com/investors, for the full text.

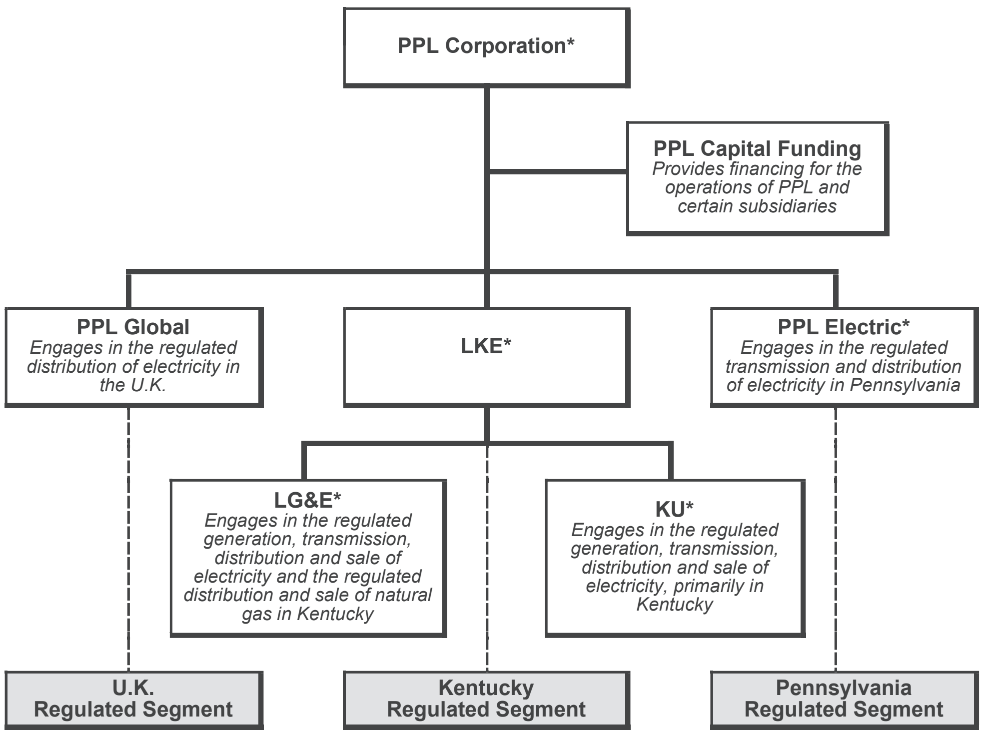
BUSINESS

General

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky and Virginia; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries at December 31, 2020 are shown below (* denotes a Registrant).



PPL Global is not a registrant. Unaudited annual consolidated financial statements for the U.K. Regulated Segment were furnished on a Form 8-K with the SEC on February 18, 2021.

In addition to PPL, the other Registrants included in this report are as follows.

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. 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 separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky and Virginia. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs, primarily including financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. The financial results of Safari Energy are also reported within Corporate and Other.

A comparison of PPL's three regulated segments is shown below.

		U.K. Regulated		Kentucky Regulated		Pennsylvania Regulated
For the year ended December 31, 2020:						
Operating Revenues (in billions)	$	2.1	$	3.1	$	2.3
Net Income (in millions)	$	686	$	418	$	497
Electricity delivered (GWh)		68,133		29,016		36,008
At December 31, 2020:						
Regulatory Asset Base (in billions) (a)	$	10.9	$	10.8	$	8.3
Service area (in square miles)		21,600		9,400		10,000
End-users (in millions)		8.0		1.3		1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information by segment.

(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.

U.K. Regulated Segment *(PPL)*

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 British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 8.0 million across 21,600 square miles in south Wales and southwest and central England. See Note 3 to the Financial Statements for revenue information. WPD's operating revenues are translated from GBP to U.S. dollars using the average exchange rates in effect each month. The annual weighted average of the monthly GBP to U.S. dollar exchange rates used for the years ended December 2020, 2019 and 2018 were $1.28 per GBP, $1.28 per GBP, and $1.34 per GBP.

In August 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. See "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Financial and Operational Developments – Initiation of Formal Process to Sell U.K. Utility Business.

Franchise and Licenses

WPD's operations are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. Ofgem is a non-ministerial government department and an independent National Regulatory Authority responsible for protecting the interests of existing and future electricity and natural gas consumers. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each DNO to develop, maintain and operate efficient distribution networks. WPD's operations are regulated under these licenses which set the outputs WPD needs to deliver to customers and associated revenues WPD is allowed to earn. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

Ofgem has the formal power to propose modifications to each distribution license; however, licensees can appeal such changes to the U.K.'s Competition and Markets Authority. Generally, any potential changes to these licenses are reviewed with stakeholders in a formal regulatory consultation process prior to a formal change proposal.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four DNOs are, therefore, regulated monopolies, operating under regulatory price controls.

Customers

WPD provides regulated electricity distribution services to licensed third-party energy suppliers who use WPD's networks to transfer electricity to their customers, the end-users. WPD bills energy suppliers for this service and the supplier is responsible for billing its end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether a supplier needs to collateralize its payment obligations.

U.K. Regulation and Rates

Overview

Ofgem has adopted a price control regulatory framework with a balanced objective of enhancing and developing future electricity networks, controlling costs to customers and allowing DNOs, such as WPD's DNOs, to earn a fair return on their investments. This regulatory structure is focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Price controls are established based on long-term business plans developed by each DNO with substantial input from its stakeholders. To measure the outputs and performance, each DNO business plan includes incentive targets that allow for increases and/or reductions in revenues based on operational performance, which are intended to align returns with quality of service, innovation and customer satisfaction.

For comparative purposes, amounts listed below are in British pounds sterling, nominal prices and in calendar years unless otherwise noted.

Key Ratemaking Mechanisms

PPL believes the U.K. electricity utility model is a premium jurisdiction in which to do business due to its significant stakeholder engagement, incentive-based structure and high-quality ratemaking mechanisms.

Current Price Control: RIIO-ED1

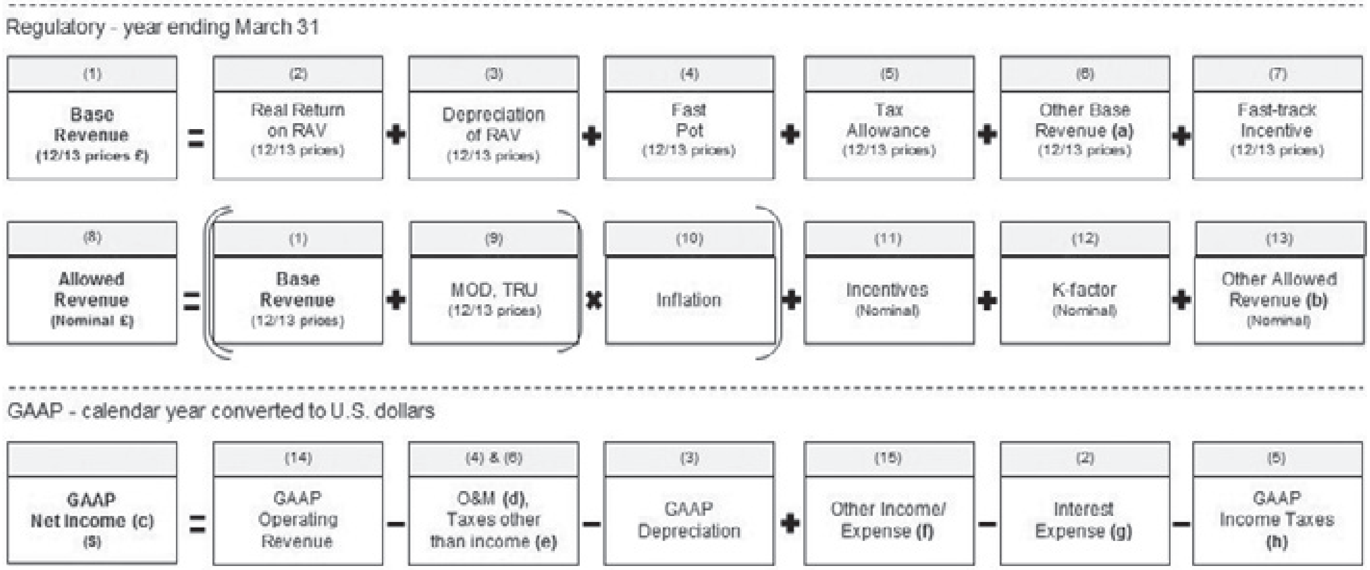
WPD currently operates under an eight-year price control called RIIO-ED1, which commenced for electricity distribution companies on April 1, 2015. The regulatory framework is based on an updated approach for sustainable network regulation known as the "RIIO" model where Revenue = Incentives + Innovation + Outputs.

In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD's DNOs' business plans were accepted by Ofgem as "well justified" and were "fast-tracked" ahead of all other DNOs. WPD's DNOs were rewarded for being fast-tracked with preferential financial incentives, a higher return on equity and higher cost savings retention under their business plans as discussed further below. However, an unintended consequence of being fast-tracked resulted in WPD being disadvantaged from a cost of debt recovery standpoint, as further discussed within "*(2) Real Return on capital from RAV*" below.

WPD's combined RIIO-ED1 business plans as accepted by Ofgem included funding for total expenditures of approximately £12.8 billion (nominal) over the eight-year period, as follows:

- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem fees and National Grid transmissions charges); and
- Corporate income taxes recovery - £0.5 billion.

The chart below illustrates the building blocks of allowed revenue and GAAP net income for the U.K. Regulated Segment. The revenue components are shown in either 2012/13 prices or nominal prices, consistent with the formulas Ofgem established for RIIO-ED1. The reference numbers shaded in each block correspond with the descriptions that follow.



(a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.
(b) Primarily pass through true-ups.
(c) Reference Form 8-K filed February 18, 2021 for U.K. Regulated Segment GAAP Statement of Income component values.
(d) Includes the service cost component of GAAP pension costs/income. See "Defined Benefits, Net periodic defined benefit costs (credits)" in Note 12 to the Financial Statements.
(e) Primarily property taxes.
(f) Primarily includes the non-service cost (credit) components of GAAP pension costs/income and gains and losses on foreign currency hedges.
(g) Includes WPD interest and $32 million of allocated interest expense to finance the acquisition of WPD Midlands.
(h) GAAP income taxes represent an effective tax rate of 18% for 2020, 16% for 2019, 17% for 2018 and approximately 19% going forward.

(1) Base Revenue

The base revenue a DNO can collect in each year of the current price control period is the sum of the following, discussed further below:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion "*(4) Expenditure efficiency mechanisms*" below;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;

- pension deficit funding;
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion "*(6) Other revenue included in base revenue*" below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base revenue also includes the fast-track incentive.

(2) Real Return on capital from RAV

Real-time returns on cost of regulated equity (real) **-** Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD's DNO base equity returns are calculated using an equity ratio of 35% of RAV. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return for 2020, 2019 and 2018 were £177 million, £168 million and £160 million.

Indexed cost of debt recovery (real) **-** As part of WPD's fast-track agreement with Ofgem for RIIO-ED1, WPD collects in revenues an assumed real cost of debt that is derived from a historical 10-year bond index (iBoxx) and adjusted annually for inflation. This calculated real cost of debt is then applied to 65% of RAV at the DNOs to determine the cost of debt revenue recovery. The cost of debt was set at 2.55% in the original "well justified" business plans. The recovery amounts are trued up annually as a component of the MOD true-up mechanism described within "*(9) MOD and Inflation True-Up (TRU)*" below.

As discussed above, WPD's cost of debt revenue allowances are derived from using a rolling 10-year trailing average of historical 10-year bond index (iBoxx); however, the cost of debt revenue allowances for all slow track companies are derived using an extending trailing average of the index. Under this approach, the trailing average period used is progressively extended from 10 to 20 years and consequently short-term fluctuations in the interest rate have a less pronounced effect on the regulatory cost of debt applied. Therefore, WPD's cost of debt recovery is significantly lower than it would have been had it been derived under the approach used for the slow-track companies.

Over the 8-year RIIO-ED1 period WPD is expected to under-recover its cost of debt at the four DNOs, based upon the latest inflation assumptions and projected 10-year iBoxx bond indices rates, by approximately £300 million primarily driven by the previously discussed differing cost of debt recovery calculations. Under the terms of the fast track process, fast tracked companies were not supposed to be disadvantaged financially to slow track companies. It is currently unlikely, however, if WPD will be able to recover any of this under-recovery in the next price control period, RIIO-ED2, beginning April 1, 2023.

Interest costs relating to long-term debt issued at WPD's holding companies are not recovered in revenues and for 2020, 2019 and 2018 were approximately £58 million, £57 million and £46 million.

(3) Recovery of depreciation in revenues - Recovery of depreciation in regulatory revenues is one of the key mechanisms Ofgem uses to support financeable business plans that provide incentives to attract the continued substantial investment required in the U.K. Differences between GAAP and regulatory depreciation exist primarily due to differing assumptions on asset lives and because RAV is adjusted for inflation using RPI.

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved DNO near-term revenues and cash flows during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After review and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs fully demonstrating a need to ensure financeable plans. WPD adopted a transition that has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets. Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

Because Ofgem uses a real cost of capital, the RAV and recovery of depreciation are adjusted for inflation using RPI. The inflation revenues collected in this line item help recover the cost of equity and debt returns on a "nominal" basis, compared to the "real" rates used to set the return component of base revenues.

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2020, 2019 and 2018, this difference was £458 million, £450 million and £444 million (pre-tax) and positively impacted net income. The difference is expected to continue in the £400 million to £460 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1), assuming RPI of approximately 3.0% per year from 2021 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

(4) Expenditure efficiency mechanisms - Ofgem introduced the concept of Totex in RIIO to ensure all DNOs face equal incentives in choosing between operating and capital solutions. Totex is split between immediate recovery (called "Fast pot") and deferred recovery as an addition to RAV (called "Slow pot"). The ratio of Slow pot to Fast pot was determined by each DNO in its business plan development. WPD established a Totex split of 80% Slow pot and 20% Fast pot for RIIO-ED1 to balance maximizing RAV growth with immediate cost recovery to support investment grade credit ratings. Comparatively, other DNOs on average used a ratio of approximately 70% Slow pot and 30% Fast pot for RIIO-ED1.

Ofgem also allows a Totex Incentive Mechanism that is intended to reward DNOs for cost efficiency. WPD's DNOs are able to retain 70% of any amounts not spent against their RIIO-ED1 plan and bear 70% of any over-spends. Any amounts to be returned to customers are trued up in the AIP discussed below.

Because Fast pot cost recovery represents 20% of Totex expenditures and certain other costs are recovered in other components of revenue, Fast pot will not equal operation and maintenance expenses recorded for GAAP purposes.

(5) Income Tax Allowance - For price control purposes, WPD collects income tax based on Ofgem's notional tax charge, which will not equal the amount of income tax expense recorded for GAAP purposes. The following table shows the amount of taxes collected in revenues and recorded under GAAP.

	2020	2019	2018
Taxes collected in revenues	£ 55	£ 56	£ 58
Taxes recorded under GAAP	233	167	156

(6) Other revenue included in base revenue - Other revenue included in base revenue primarily consists of pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

Recovery of annual (normal) pension cost and pension deficit funding - Ofgem allows DNOs to recover annual (normal) pension costs through the Totex allocation, split between the previously described Fast pot (immediate recovery) and Slow pot recovery (as an addition to RAV). The amount of normal pension cost is computed by the pension trustees, using assumptions that differ from those used in calculating pension costs/income under GAAP. In addition, the timing of the revenue collection may not match the actual pension payment schedule, resulting in a timing difference of cash flows.

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £155 million, £151 million and £147 million in 2020, 2019 and 2018. Following the completion of the 2019 Actuarial Valuations and Ofgem's 2020 Reasonableness Review, WPD expects to collect £142 million, £138 million and £62 million in revenues through December 31, 2021, 2022 and 2023.

See Note 12 to the Financial Statements for additional information on pension costs/income recognized under GAAP.

Recovery of pass through costs - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £30 million, £37 million and £38 million in 2020, 2019 and 2018. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

Profiling adjustments - Ofgem permitted DNOs the flexibility to make profiling adjustments to their base revenues within their business plans. These adjustments do not affect the total base revenue in real terms over the eight-year price control period but change the year in which the revenue is collected. In the first year of RIIO-ED1, WPD's base revenue decreased by 11.8% compared to the final year of the prior price control period (DPCR5), primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base revenue then increased by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2019 and will increase by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

(7) Incentives for developing high-quality business plans (known as fast-tracking) - For RIIO-ED1, Ofgem incentivized DNOs with certain financial rewards to develop "well justified" business plans that drive value to customers. WPD was awarded the following fast-track incentives:

- an annual fast-track revenue incentive worth 2.5% of Totex (approximately £25 million annually for WPD);
- a real cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs; and,
- cost savings retention was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs.

(8) Allowed Revenue - Allowed revenue is the amount that a DNO can collect from its customers in order to fund its investment requirements.

Base revenues are adjusted annually during RIIO-ED1 to arrive at allowed revenues. These adjustments are discussed in sections (9) through (13) below.

(9) MOD and Inflation True-Up (TRU)

MOD - RIIO-ED1 includes an AIP that allows future base revenues, agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including taxes, pensions, 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). The AIP calculates an incremental change to base revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.
- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year was a £39 million reduction to revenue that reduced base revenue in calendar years 2018 and 2019 by £26 million and £13 million.
- The MOD provided by Ofgem in November 2018 for the 2017/18 regulatory year was a £42 million reduction to revenue that reduced base revenue in calendar year 2019 and 2020 by £28 million and £14 million.
- The MOD provided by Ofgem in November 2019 for the 2018/19 regulatory year was a £81 million reduction to revenue that reduced base revenue in calendar year 2020 by £54 million and will reduce base revenues in calendar year 2021 by £27 million.
- The MOD provided by Ofgem in November 2020 for the 2019/20 regulatory year was a £126 million reduction to revenue that will reduce base revenue in calendar years 2021 and 2022 by £84 million and £42 million.
- The projected MOD for the 2020/2021 regulatory year is a £159 million reduction to revenue that is expected to reduce base revenue in calendar years 2022 and 2023 by £106 million and £53 million.

TRU - As discussed below in "*(10) Inflation adjusted, multi-year rate cycle*," the base revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore, an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base revenue. Forecasted RPI is trued up to actuals and affects future base revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue that reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue that reduced base revenue in calendar years 2018 and 2019 by £4 million and £2 million.

- The TRU for the 2017/18 regulatory year was a £4 million increase to revenue that increased base revenue in calendar year 2019 and 2020 by £3 million and £1 million.
- The TRU for the 2018/19 regulatory year was a £2 million reduction to revenue that reduced base revenue in calendar year 2020 by £1 million and will reduce base revenue in calendar year 2021 by £1 million.
- The TRU for the 2019/20 regulatory year was a £15 million reduction to revenue that will reduce base revenue in calendar years 2021 and 2022 by £10 million and £5 million.
- The projected TRU for the 2020/21 regulatory year is a £13 million reduction to revenue that is expected to reduce base revenue in calendar years 2022 and 2023 by £9 million and £4 million.

As both MOD and TRU are changes to future base revenues as determined by Ofgem, 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.

(10) Inflation adjusted, multi-year rate cycle - Ofgem built its price control framework to better coincide with the long-term nature of electricity distribution investments. The current price control for electricity distribution is for the eight-year period from April 1, 2015 through March 31, 2023. This both required and enabled WPD to design a base business plan with predictable revenues and expenses over the long-term to drive value for its customers through predetermined outputs and for its investors through preset base returns. A key aspect to the multi-year cycle is an annual inflation adjustment for revenue and cost components, which are inflated using RPI from the base 2012/13 prices used to establish the business plans. Consistent with Ofgem's formulas, the inflation adjustment is applied to base revenue, MOD and TRU when determining allowed revenue. This inflation adjustment also has the effect of inflating RAV, and real returns are earned on the inflated RAV.

(11) Incentive revenues for strong operational performance and innovation - Ofgem has established incentives to provide opportunities for DNOs to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. Some of the more significant incentives that may affect allowed revenue include the Interruptions Incentive Scheme (IIS), the broad measure of customer service (BMCS) and the time to connect (TTC) incentive:

- The IIS has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages.
- The BMCS encompasses customer satisfaction in supply interruptions, connections and general inquiries, complaints, stakeholder engagement and delivery of social obligations.
- The TTC incentive rewards DNOs for reducing connection times for minor connections against an Ofgem set target.

The annual incentives and penalties are reflected in customer rates on a two-year lag from the time they are earned and/or assessed. Based on applicable GAAP, incentive revenues and penalties are recorded in revenues when they are billed to customers. The following table shows the amount of incentive revenues (in total), primarily from IIS, BMCS and TTC that WPD has received and is projected to receive on a calendar year basis:

Calendar Year Ended Incentive Earned	Incentive Received (in millions)		Calendar Year Ended Incentive Included in Revenue
2016	£	76	2018
2017		72	2019
2018		78	2020
2019		85	2021
2020 (a)		75-85	2022
2021 (a)		75-85	2023

(a) Reflects projected incentive revenues.

(12) Correction Factor (K-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 allowed revenue for a particular period. Conversely, WPD could 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 during RIIO-ED1 will be refunded/recovered two regulatory years later.

- The K-factor for the 2015/16 regulatory year was a £4 million under-recovery that increased allowed revenue in calendar years 2017 and 2018 by £3 million and £1 million.

- The K-factor for the 2016/17 regulatory year was a £23 million over-recovery that reduced allowed revenue in calendar years 2018 and 2019 by £15 million and £8 million.
- The K-factor for the 2017/18 regulatory year was a £3 million over-recovery that reduced allowed revenue in calendar year 2019 and 2020 by £2 million and £1 million.
- The K-factor for the 2018/19 regulatory year was a £16 million over-recovery that reduced allowed revenue in calendar year 2020 by £11 million and will reduce allowed revenue in calendar year 2021 by £5 million.
- The K-factor for the 2019/20 regulatory year was a £25 million under-recovery that will increase allowed revenue in calendar years 2021 and 2022 by £17 million and £8 million.
- The projected K-factor for the 2020/21 regulatory year is a £88 million under-recovery that is expected to increase allowed revenue in calendar years 2022 and 2023 by £59 million and £29 million.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

(13) Other Allowed Revenue - Other Allowed Revenue primarily consists of pass through true-ups. For a discussion on property tax true-ups, see recovery of pass through costs in "*(6) Other revenue included in base revenue*" above.

(14) GAAP Operating Revenue - Operating revenue under GAAP primarily consists of allowed revenue, which has been converted to rates and earned as electricity was delivered in the calendar year, converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD’s Telecoms and Property companies. The amounts of miscellaneous revenue for 2020, 2019 and 2018 were £121 million, £115 million and £115 million. The margin or profit on these activities, however, was not significant.

(15) Currency Hedging - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

GAAP Accounting implications

As the regulatory model in the U.K. 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 for the differences in the amounts collected in revenues and the amounts recorded for expenses related to depreciation, pensions, cost of debt and income taxes, and the adjustments to base revenue and/or allowed revenue are evaluated primarily based on revenue recognition guidance.

See "Revenue Recognition" in Note 1 to the Financial Statements for additional information.

See "Overview - Financial and Operational Developments - RIIO-2 Framework" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on the RIIO-2 Framework which will commence on April 1, 2023.

Kentucky Regulated Segment *(PPL)*

The Kentucky Regulated segment consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, also Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electricity service to approximately 425,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 332,000 customers in its electricity service area and eight additional counties in Kentucky. KU provides electric service to approximately 536,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 28,000 customers in five counties in southwestern Virginia, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to two municipalities in Kentucky under load following contracts. See Note 3 to the Financial Statements for revenue information.

Franchises and Licenses

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electricity service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels indirectly impact LG&E's natural gas revenues. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity. Therefore, customer natural gas purchases from alternative suppliers do not generally impact LG&E's profitability. Some large industrial and commercial customers, however, may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

Power Supply

At December 31, 2020, LKE owned generating capacity of 7,561 MW, of which 2,786 MW related to LG&E and 4,775 MW related to KU.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2020, LKE's power plants generated the following amounts of electricity:

	GWh		
Fuel Source	**LKE**	**LG&E**	**KU**
Coal	24,039	9,961	14,078
Gas	5,370	1,274	4,096
Hydro	367	242	125
Solar	18	7	11
Total (a)	29,794	11,484	18,310

(a) This generation represents decreases for LKE, LG&E and KU of 8%, 13% and 4% from 2019 output.

The majority of LG&E's and KU's generated electricity was used to supply their retail customer bases.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their customers. When LG&E has excess generation capacity after serving its own customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa.

Due to environmental requirements and energy efficiency measures, as of December 31, 2020, LG&E and KU have retired approximately 1,200 MW of coal-fired generation plants since 2010.

LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is a voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction commences, in 500-kilowatt phases, when subscription is complete. Construction of two 500-kilowatt phases was completed as of December 31, 2020. The subscription for the third and fourth 500-kilowatt phase was completed with construction expected to be completed in 2021. LG&E and KU continue to market the program and have started receiving subscriptions for the fifth 500-kilowatt phase.

On January 23, 2020, LG&E and KU applied to the KPSC for approval of arrangements relating to the purchase of 100 MW of solar power in connection with the Green Tariff option established in the 2018 Kentucky base rate cases. Pursuant to the agreements, LG&E and KU would purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the bulk of the power as renewable energy to two large industrial customers and use the remaining power for other customers. On May 8, 2020, the KPSC issued an order approving LG&E's and KU's applications with certain modifications. LG&E and KU requested reconsideration of limited portions of the KPSC's Order and on December 16, 2020, the KPSC amended their original order. PPL, LKE, LG&E and KU do not anticipate that these arrangements will have a significant impact on their results of operations or financial condition.

Fuel Supply

Coal and natural gas are expected to be the predominant fuels used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil are also used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues, high or low river level events, lock outages and other supplier or transporter operating difficulties.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2024 and augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect, for the foreseeable future, to purchase most of their coal from western Kentucky, southern Indiana, southern Illinois, northern West Virginia and western Pennsylvania. LG&E and KU continue to purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at Trimble County Unit 2. Coal is delivered to the generating plants primarily by barge and rail.

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations through 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as three other simple cycle units at the Paddy's Run site. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 through March 2023. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used to provide natural gas service to LG&E's firm sales customers. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would need to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are expected to be higher. At December 31, 2020, LG&E had 12 Bcf of natural gas stored underground with a carrying value of $30 million.

LG&E has a portfolio of supply arrangements of varying durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2023 and 2026. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 for 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

LG&E expects to purchase natural gas supplies for its gas distribution operations from onshore producing regions in South Texas, East Texas, North Louisiana and Arkansas, as well as gas originating in the Marcellus and Utica production areas.

(PPL, LKE, LG&E and KU)

Transmission

LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator and contract with TranServ International, Inc. to act as their independent transmission organization.

Rates

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 and KU operate under a FERC-approved open access transmission tariff.

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 in Kentucky.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor and regulatory assets or liabilities recorded for pension and postretirement benefits and AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, certain municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts. KU's service to eight municipalities terminated effective April 30, 2019. KU continues to provide service to two municipalities.

See "Financial and Operational Developments" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on current rate proceedings and rate mechanisms.

Pennsylvania Regulated Segment *(PPL)*

The Pennsylvania Regulated segment consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties within eastern and central Pennsylvania. PPL Electric also provides electricity to retail customers in this territory as a PLR under the Customer Choice Act. See Note 3 to the Financial Statements for revenue information.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies which it has succeeded, and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity distribution business. Pursuant to the Customer Choice Act, generation of electricity is a competitive business in Pennsylvania, and PPL Electric does not own or operate any generation facilities.

The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM.

Rates and Regulation

Transmission

PPL Electric's transmission facilities are within PJM, which operates the electricity transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved Regional Transmission Operator (RTO) to promote greater participation and competition in the region it serves. In addition to operating the electricity transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities. Certain types of transmission investments are subject to competitive processes outlined in the PJM tariff.

As a transmission owner, PPL Electric's transmission revenues are recovered through PJM and billed in accordance with a FERC-approved Open Access Transmission Tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on 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. Any change in the prior year PPL zonal peak load billing factor applied on January 1 of each year will result in an increase or decrease in revenue until the next annual rate update is effective on June 1 of that same year.

As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

See Note 7 to the Financial Statements for additional information on rate mechanisms.

Distribution

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base. Therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

Pennsylvania's Alternative Energy Portfolio Standard (AEPS) requires electricity distribution companies and electricity generation suppliers to obtain from alternative energy resources a portion of the electricity sold to retail customers in Pennsylvania. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 created an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct and changes to the existing AEPS.

Act 11 authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. PPL Electric utilized the fully projected future test year mechanism in its 2015 base rate proceeding. PPL has had the ability to utilize the DSIC recovery mechanism since July 2013.

See "Financial and Operational Developments" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on legislative and regulatory matters.

PLR

The Customer Choice Act requires electric distribution companies, including PPL Electric, or an alternative supplier approved by the PUC, to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2020, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 42% of residential, 81% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which included a total of eight semi-annual solicitations for electricity supply. Additionally, on December 17, 2020, the PUC approved PPL Electric's next default service plan for the period of June 2021 through May 2025, which includes a total of eight solicitations for electricity supply held semiannually in April and October. The new plan also includes eight solicitations for alternative energy credits held semiannually in January and July with the first solicitation being in July 2021 and the final solicitation being in January 2025.

Pursuant to the plans, PPL Electric contracts for all of the electricity supply for residential, commercial and industrial customers who elect to take default service from PPL Electric. These solicitations contain a mix of products including 5-year block energy contracts for residential customers, 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, 12-month real-time pricing contracts for large commercial and industrial customers, and alternative energy credit contracts for residential, commercial and industrial customers. These contracts fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service area. As the cost of generation supply is a pass-through cost for PPL Electric, its financial results are not impacted if its customers purchase electricity supply from these alternative suppliers.

Corporate and Other *(PPL)*

PPL Services provides PPL subsidiaries with administrative, management and support services. The costs of these services are charged directly to the respective recipients for the services provided or indirectly charged to applicable recipients based on an average of the recipients' relative invested capital, operation and maintenance expenses and number of employees or a ratio of overall direct and indirect costs.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries. PPL's growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to utilize PPL Capital Funding as a source of capital in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky Regulated and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances beginning in 2013, with certain exceptions, have not been directly assigned or allocated to any segment.

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, a privately held provider of solar energy solutions for commercial customers in the U.S. The acquisition is not material to PPL and the financial results of Safari Energy are reported within Corporate and Other.

ENVIRONMENTAL MATTERS

(All Registrants)

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA and other federal agencies with jurisdiction over environmental matters have issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. Due to these environmental issues, it may be necessary for the Registrants to modify or cease certain operations or operation of certain facilities to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to environmental permits or rules add uncertainty to estimating future costs of complying with such permits and rules. The new U.S. presidential administration is expected to undertake an assessment of potential changes in a wide range of environmental programs.

See “Legal Matters” in Note 14 to the Financial Statements for a discussion of environmental commitments and contingencies. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2021 through 2025.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and other federal, state and local environmental requirements applicable to coal combustion wastes and by-products from coal-fired generating facilities upon KPSC review. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery at the discretion of the companies' respective state regulatory authorities, or the FERC, if applicable. WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which may be recoverable through rates subject to Ofgem approval. Because neither WPD nor PPL Electric own 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 proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act has a significant impact on the operation of fossil fuel generation plants. The Clean Air Act requires the EPA periodically to establish and review National Ambient Air Quality Standards, known as NAAQS, for six pollutants: carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. In December 2020, the EPA released final actions keeping the existing NAAQS standard for particulate matter and ozone without change. PPL, LKE, LG&E, and KU are unable to predict the outcome of future evaluations by the EPA and the states with respect to the NAAQS standards.

Applicable regulations require each state to identify areas within its boundaries that fail to meet the NAAQS, (known as nonattainment areas), and develop a state implementation plan to achieve and maintain compliance. States that are found to contribute significantly to another state's nonattainment with ozone standards are required to establish "good neighbor" state implementation plans. In addition, for attainment of ozone and fine particulates standards, certain states, including Kentucky, are subject to a regional EPA program known as the Cross-State Air Pollution Rule (CSAPR).

In January 2018, the EPA designated Jefferson County, Kentucky (Louisville) as being in nonattainment with the existing 2015 ozone standard. In 2020, LG&E entered into an agreement with the Louisville Metro Air Pollution Control District for temporary nitrogen oxide emission limits at LG&E's Mill Creek Station during 2020 to facilitate compliance with the ozone standard. If Jefferson County is unable to demonstrate attainment within the specified timeframes, it may be “bumped up” to the moderate nonattainment classification and thus subject to additional requirements including requirements for installation of reasonably available control technology on coal-fired generating units. Compliance with such requirements may require installation of additional pollution controls or other compliance actions. LKE and LG&E are unable to determine the impact on operations until certain compliance determinations are made by the EPA and Kentucky.

In December 2018, the EPA finalized the CSAPR "Close-Out Rule," determining that the existing CSAPR "Update Rule" for the 2008 ozone NAAQS fully addresses applicable states' interstate pollution transport obligations. Various states and others challenged the rule in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit). In September 2019, the D.C. Circuit granted these petitions and remanded a portion of the CSAPR Update Rule to the EPA. In October 2020, the EPA released proposed revisions to the CSAPR Update Rule providing for rescission of Kentucky's approved good neighbor state implementation plan and additional reductions in ozone season nitrogen oxide emissions for 2021 and subsequent years from sources in 12 states, including Kentucky.

PPL, LKE, LG&E and KU are unable to determine the impact of the rule on operations until the rule is finalized, and certain implementation determinations are made by the EPA and Kentucky. Compliance with the NAAQS, CSAPR and related requirements may require installation of additional pollution controls or other compliance actions, the costs of which PPL, LKE, LG&E and KU believe would be subject to rate recovery.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, establishing non-binding targets to reduce GHG emissions from both developed and developing nations. In 2017, the President announced a U.S. withdrawal from the Paris Agreement, effective November 2020. In January 2021, the new U.S. presidential administration initiated the process to rejoin the Paris Agreement. The new U.S. presidential administration also issued executive orders directing agencies to conduct a general review of regulations and executive actions relating to the environment and reestablished a framework for considering the social cost of carbon as part of certain agency cost-benefit analyses for new regulations. The new U.S. presidential administration is considering a wide range of additional policies, executive orders, rules, legislation and other initiatives to address climate change. Some of these initiatives may include repeal of policies, executive orders or rules implemented by the prior administration. Additionally, there are ongoing efforts by various state and local governments to assess potential changes to legislation, rules, policies, directives, and other requirements applicable to greenhouse gas emissions. PPL, LKE, LG&E and KU cannot predict the outcome of ongoing developments.

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 not significant and is included in WPD's current operating expenses.

The EPA's Affordable Clean Energy Rule

In July 2019, the EPA repealed the Clean Power Plan and finalized the Affordable Clean Energy (ACE) Rule which gives states broad latitude to establish emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" to reduce GHG emissions per unit of electricity generated. States are generally allowed three years to submit plans establishing standards of performance, while the EPA anticipates that most facilities will be required to demonstrate compliance within two years of plan approval. The EPA intends to take additional action to finalize new criteria for determining whether efficiency projects will trigger New Source Review and thus be subject to more stringent emission controls. LG&E and KU are currently working with state agencies on submittal of compliance plans to the EPA. Various entities filed petitions for review and petitions for reconsideration. On January 19, 2021, the D.C. Circuit Court issued an opinion finding that the EPA had erroneously repealed the Clean Power Plan. The D.C Circuit Court's opinion also vacated and remanded the ACE Rule to the EPA. PPL, LKE, LG&E, and KU cannot predict the outcome of the pending litigation and regulatory proceedings or changes that may be pursued by the new U.S. presidential administration, but believe that the costs would be subject to rate recovery.

<u>Water/Waste</u>

(PPL, LKE, LG&E and KU)

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects that impact "Waters of the United States." Many other requirements relate to power plant operations, including 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, and standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. These requirements could impose significant costs for LG&E and KU, which are expected to be subject to rate recovery.

Clean Water Act Jurisdiction

Environmental groups and others have claimed that discharges to groundwater from leaking CCR impoundments at power plants are subject to Clean Water Act permitting. A citizen suit raising such claims has been filed against KU with respect to the E.W. Brown plant, as discussed under “Legal Matters” - “E.W. Brown Environmental Claims” in Note 14 to the Financial Statements. On April 12, 2019, the EPA released regulatory clarification finding that Clean Water Act jurisdiction does not cover such discharges to groundwater. On January 23, 2020, the EPA announced a final rule modifying the jurisdictional scope of the Clean Water Act. The announced rule revises the definition of the "Waters of the United States," including a revision to exclude groundwater from the definition. In April 2020, the U.S. Supreme Court issued a ruling that Clean Water Act jurisdiction may apply to certain discharges to groundwater that result in the functional equivalent of a direct discharge to navigable waters. In December 2020, the EPA published draft guidance addressing how the Supreme Court decision applies to the Clean Water Act National Pollutant Elimination System permit program. PPL, LKE, LG&E, and KU are unaware of any unpermitted releases from their facilities that are subject to Clean Water Act jurisdiction, but future regulatory developments and judicial rulings could potentially subject certain releases from CCR impoundments and landfills to additional permitting and remediation requirements, which could impose substantial costs. Any associated costs are expected to be subject to rate recovery. PPL, LKE, LG&E and KU are unable to predict the outcome or financial impact of future regulatory proceedings and litigation.

Seepages and Groundwater Infiltration

In addition to the actions described above, 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. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

Superfund and Other Remediation

(All Registrants)

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary to comply 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 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 available to cover certain of the costs or other obligations related to these matters, but the amount of insurance coverage or reimbursement cannot be estimated or assured.

See “Legal Matters” in Note 14 to the Financial Statements for additional information.

(All Registrants)

HUMAN CAPITAL

PPL, together with its subsidiaries, is committed to fostering an exceptional workplace for employees. PPL pledges to enable success of its current and future workforce through a human capital management approach that cultivates a diverse, equitable and inclusive culture, fosters professional development and encourages employee engagement. Matters related to these priorities and corporate culture are overseen by PPL's senior management, which provides updates to the PPL Board of Directors (the Board). Three priorities of this commitment and their oversight are as follows:

- Diversity, equity and inclusion (DEI) – Foster an inclusive, respectful and diverse workplace. Senior management reviews demographic metrics, DEI objectives and associated programs semi-annually. The Director of Diversity, Inclusion and Talent Management also reports to the Board on the company's DEI strategy.
- Employee engagement – Create a workplace that fosters an engaged, high-quality workforce. PPL's operating companies regularly conduct assessments related to employee engagement, safety and culture. Senior management reviews corporate culture with the Board annually.
- Human capital – Invest in our current and future workforce through training and development, succession planning and creation of a pipeline for internal advancement. In addition to challenging careers and competitive salaries, PPL offers competitive benefits programs to attract and retain talent and support employees' well-being. PPL offers competitive vacation time, expanded leave for new parents, retirement programs, and internal and external development opportunities, including tuition reimbursement offerings for undergraduate and certain graduate degrees. Senior management reviews succession planning with the Compensation Committee of the Board on an annual basis.

PPL is also committed to maintaining an ethical and safe workplace culture. Additional steps to ensure Board oversight in these areas include:

- Compliance – The Corporate Compliance Committee, including senior executives, meets quarterly to discuss metrics and other matters related to the compliance and ethics culture. Among the items discussed are statistics regarding Ethics Helpline reports and employee concerns. This information is also reviewed with the Audit Committee of the Board quarterly.
- Safety – PPL carries out programs focused on health and safety, including emergency preparedness, vehicle safety and accident prevention. Employees receive safety training and are encouraged to share best practices. Senior management receives monthly safety data to determine whether additional safety measures should be implemented. The Board annually reviews the company's safety programs and results. The Board is also immediately engaged in the event of a fatality.

PPL will continue to engage with employees and to assess these priorities as we work to best position individuals and the company for future success. As a result of our continued effort in these areas, we have a relatively low turnover rate of 5.8% for the year ended December 31, 2020. Looking forward, we will maintain our strong focus on workforce planning to address future talent needs.

At December 31, 2020, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions:

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,318	5,692	46 %
PPL Electric	1,533	887	58 %
LKE	3,482	759	22 %
LG&E	1,016	640	63 %
KU	889	119	13 %

PPL's domestic workforce has 1,820 employees, or 32%, who are members of labor unions.

WPD has 3,872 employees who are members of labor unions (or 59% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represent 40% of its union workforce. WPD's Electricity Business Agreement, which covers 3,816 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

CYBERSECURITY MANAGEMENT

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has adopted a variety of measures to monitor and address cyber-related risks and continues to implement and explore additional cybersecurity measures. Cybersecurity and the effectiveness of PPL's cybersecurity strategy are regular topics of discussion at Board of Directors meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within PPL's enterprise risk management processes. PPL's Chief Information Security Officer (CISO), who reports directly to the Chief

Executive Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. Among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization to strengthen secure behavior. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition, in 2018, PPL revised and formalized its internal policy and procedures for communicating cybersecurity incidents on an enterprise-wide basis.

In addition to these enterprise-wide initiatives, PPL's Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by the FERC to protect grid security and reliability. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

Combined Management's Discussion and Analysis of Financial Condition and Results of Operations

(All Registrants)

The following should be read in conjunction with the Registrants' Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.

- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2020 with 2019. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins," which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.

- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

For comparison of the Registrants' results of operations and cash flows for the years ended December 31, 2019 to December 31, 2018, refer to "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2019 Form 10-K, filed with the SEC on February 14, 2020.

Overview

For a description of the Registrants and their businesses, see "Business."

Business Strategy

(All Registrants)

PPL operates seven fully regulated high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky, constructive regulatory jurisdictions with distinct regulatory structures and customer classes.

PPL's strategy, and that of the other Registrants, is to deliver best-in-sector operational performance, invest in a sustainable energy future, provide superior customer service, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

For the U.S. businesses, central to PPL's strategy is recovering capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause and gas supply clause) and recovery on construction work-in-progress that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital expenditures to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms operate to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which the Registrants operate (U.K., U.S. federal and state). This is supported by a strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve customer service, reliability and operational efficiency.

Financial and Operational Developments

Initiation of Formal Process to Sell U.K. Utility Business (PPL)

On August 10, 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. There can be no assurance of any specific outcome, including whether the sale process will result in the completion of any potential transaction, the timing or terms thereof, the value or benefits that may be realized or the effect that any potential transaction will have on future financial results.

As a result of the potential sale, PPL assessed the recoverability of the assets of its U.K. utility business. PPL prepared probability-weighted undiscounted cash flow estimates as of December 31, 2020 and September 30, 2020 that considered the likelihood of the possible outcomes of the sale process, including the possibility of not selling the U.K. utility business. The resulting cash flow analyses exceeded the carrying value of the assets of the U.K. utility business. A change in the possible outcomes of the sale process could result in the carrying value of the assets of the U.K. utility business not being recoverable, which could result in an impairment in future periods. The U.K. utility business will continue to be classified as held and used until it meets the criteria to be classified as held for sale, which includes management obtaining a commitment to a plan to sell from its Board of Directors.

Should the U.K. utility business meet the criteria to be classified as held for sale in a future period, PPL will be required at that time to compare the estimated fair value of its investment in the U.K. utility business, less costs to sell, to its carrying value, including accumulated other comprehensive losses related to the U.K. utility business, for impairment purposes. The resulting measurement may result in a loss. In addition, PPL will reassess its assertion of the indefinite reinvestment of the unremitted earnings of the U.K. utility business. See Note 21 to the Financial Statements for additional information on accumulated other comprehensive income and losses. See Note 6 to the Financial Statements for additional information on income taxes.

Outbreak of COVID-19 (All Registrants)

The continued spread of COVID-19 has disrupted the U. S. and global economies and continues to present extraordinary challenges to businesses, communities, workforces and markets. The Registrants have taken significant steps to mitigate the potential spread of COVID-19 to our customers, suppliers and employees. PPL has successfully implemented its company-wide pandemic plan, which guides the emergency response. Business continuity and other precautionary measures have been taken to ensure we can continue to safely provide reliable electricity and gas service to our customers. The Registrants have implemented social distancing measures for all employees including work from home arrangements where possible and continue to implement strong physical and cyber security measures to ensure that systems function effectively to serve operational and remote workforce needs. The Registrants continue to monitor developments affecting their workforces and customers and will take additional actions as appropriate to respond to changing conditions and mitigate the impacts.

This rapidly evolving situation could lead to continued disruption of economic activity in the Registrants' markets for an undetermined period of time. Lock-down or closure of non-essential businesses has occurred in each of the Registrants' service territories, which has resulted in reductions in commercial and industrial demand and an increase in residential demand for electricity service. The impact of this net reduction in load has not been material to the Registrants' 2020 financial condition. The impact on future periods will depend upon various factors, including the pace and extent to which the Registrants' jurisdictions reopen their economies and community response to the reopening of businesses as well as the extent that businesses continue work from home protocols. We cannot predict these factors and therefore cannot quantify the overall impact COVID-19 will have on our future results of operations.

The Registrants are committed to supporting their customers and communities and have followed federal and state mandates related to suspending disconnections for non-payment and new late fees, reconnecting service for customers who had previously been disconnected and developing late payment plans with customers, where appropriate. The Registrants have experienced an increase in aged accounts receivable, resulting in an increase in expected credit losses. See "Current Expected Credit Losses" in Note 1 to the Financial Statements for additional information. The Registrants will continue to monitor cash receipts and accounts receivable aging to determine if further increases in their allowance for uncollectible accounts are required.

At December 31, 2020, the Registrants had approximately $3.2 billion of combined unused credit facility capacity. In addition, PPL Capital Funding, PPL Electric, LG&E and KU may, subject to certain conditions, increase their syndicated credit facilities in an aggregate amount of up to $1 billion. In April 2020, PPL Capital Funding issued $1 billion of 4.125% Senior Notes due 2030. In June 2020, KU issued $500 million of First Mortgage Bonds due 2050. In October 2020, PPL Electric issued $250 million of First Mortgage Bonds, Floating Rate Series due 2023. In October 2020, WPD (South Wales) issued £250 million of 1.625% Senior Notes due 2035. Based on available liquidity and access to capital markets, the Registrants do not anticipate a significant impact on their financial condition or liquidity, and do not foresee difficulties in accessing the capital markets in the near-term. See Note 8 to the Financial Statements for additional information.

The Registrants have assessed the fair value of their assets and liabilities and no impairment charges were required. See "Goodwill Assessment" below for additional information on the interim goodwill impairment test performed for the U.K. Regulated segment reporting unit in the first quarter of 2020 and the annual goodwill impairment tests performed in the fourth quarter of 2020 for all of PPL's reporting units.

PPL's pension plans continue to be well-funded as its liability-driven investment strategy and active management function to mitigate investment losses resulting from market volatility.

In response to COVID-19, various forms of aid and relief were enacted in 2020, including the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The provisions of the CARES Act and other forms of aid and relief did not have a material impact on the Registrants' financial statements.

For the year ended December 31, 2020 the following estimated changes in revenue and incremental costs incurred resulted from the impact of COVID-19.

	Reduction in Revenue	Incremental Costs
PPL	$ (114)	$ 28
WPD	(82)	19
LKE	(32)	7
LG&E	(18)	3
KU	(14)	4

WPD tariffs are set to recover allowed revenues. Any under-recoveries, including the estimated amounts shown above, will be added to revenue, with interest, in future years through K-factor. See discussion of K-factor in "Business." The impact on revenue and incremental COVID-19 related costs were not significant at PPL Electric.

To date, there has been no material impact on the Registrants' operations, financial condition, liquidity or on their supply chain as a result of COVID-19. The ultimate severity or duration of the outbreak or its effects on the global economy, the capital markets, or the Registrants' workforce, contractors, customers and suppliers is uncertain. The Registrants cannot predict the ultimate impact COVID-19 will have on their financial position, results of operations, cash flows or liquidity.

Goodwill Assessment (PPL, LKE, LG&E and KU)

During the three months ended March 31, 2020, PPL, LKE, LG&E and KU considered whether the impact of COVID-19 described above, resulting volatility and decrease in PPL's shares would more likely than not reduce the fair value of the Registrants' reporting units below their carrying amounts. Based on our assessment, a quantitative impairment test was not required for the LKE, LG&E and KU reporting units, but was required for the U.K. Regulated segment reporting unit, the allocated goodwill of which was $2.5 billion at March 31, 2020. The test did not indicate impairment of the reporting unit.

No impairments were recognized in conjunction with the annual goodwill impairment tests performed in the fourth quarter of 2020. See "Long-Lived and Intangible Assets - Asset Impairment (Excluding Investments)" in Note 1 to the Financial Statements for additional information. An impairment charge could occur in future periods if PPL's share price or any of the assumptions used in determining fair value of the reporting units are negatively impacted.

U.K. Corporation Tax Rate Change (PPL)

The U.K. corporation tax rate was scheduled to be reduced from 19% to 17%, effective April 1, 2020. On March 11, 2020, the U.K. Finance Act 2020 included a cancellation of the tax rate reduction to 17%, thereby maintaining the corporation tax rate at 19%. The Finance Act 2020 was formally enacted on July 22, 2020. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.

U.S. Tax Reform (All Registrants)

In July 2020, the IRS issued final and new proposed regulations relating to the limitation on interest deductibility. The final regulations do not apply to the Registrants until the 2021 tax year. The new proposed regulations were finalized on January 5, 2021 and will apply to the Registrants in the 2022 tax year. The Registrants are evaluating the final regulations issued in 2021, but do not expect these regulations or the 2020 final regulations to have a material impact on the Registrants' financial condition or results of operations.

U.K. Withdrawal from European Union (PPL)

In March 2017, the U.K. Government invoked Article 50 (Article 50) of the Lisbon Treaty, formally beginning the two-year period for the U.K. to negotiate an agreement specifying the terms of its withdrawal from the European Union (EU), popularly referred to as Brexit. After repeated extensions, in October 2019, the EU agreed to extend the Article 50 process until January 31, 2020. Following an early general election in December 2019, which resulted in a substantial Conservative Party Parliamentary majority, the U.K. and EU Parliaments voted to approve the EU withdrawal agreement negotiated by Prime Minister Boris Johnson.

The U.K. formally left the EU on January 31, 2020 and entered into a transition period that ended on December 31, 2020 through which the U.K. sought to negotiate a free trade arrangement with the EU and new trade terms with countries outside of the EU. Successively, the EU-UK Trade and Cooperation Agreement was agreed on December 24, 2020 and ratified by the U.K. Parliament on December 30, 2020 and was provisionally applied by the EU beginning December 31, 2020. While significant progress has been made, uncertainty continues to surround the economic impact of Brexit. PPL believes that its greatest risks relate to any extended period of depressed value of the GBP or the potential further decline in the value of the GBP compared to the U.S. dollar.

PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be material.

PPL does not expect the financial condition and results of operations of WPD, itself, to change significantly as a result of Brexit. The regulatory environment and operation of WPD's businesses are not expected to change. RIIO-ED1, the current price control, with allowed revenues agreed with Ofgem runs through March 2023. The impact of a slower economy or recession on

WPD would be mitigated in part because U.K. regulation provides that any reduction in the volume of electricity delivered will be recovered in allowed revenues in future periods through the K-factor adjustment. See "Business - Segment Information - U.K. Regulated Segment" for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher operation and maintenance expenses and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit and has taken actions to mitigate potential increasing costs and disruption to its critical sources of supply. Additionally, less than 1% of WPD's employees are non-U.K. EU nationals and no change in their domicile is expected.

Regulatory Requirements

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, and ELGs. See "Business" and Notes 7, 14 and 20 to the Financial Statements for a discussion of these significant environmental matters. These and other environmental requirements led PPL, LKE, LG&E and KU to retire approximately 1,200 MW of coal-fired generating plants in Kentucky since 2010.

RIIO-2 Framework (PPL)

In 2018, Ofgem issued its consultation document on the RIIO-2 framework, covering all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by the RIIO-2 consultation process. Later in 2018, Ofgem published its decision following its RIIO-2 framework consultation after consideration of comments received including those from WPD and PPL.

In August 2019, Ofgem published an open letter seeking views on its proposed sector specific approach on the RIIO-ED2 framework. WPD and PPL provided responses to this open letter. In December 2019, Ofgem published its decision on the RIIO-ED2 framework, thus confirming the following points in its RIIO-2 and RIIO-ED2 framework decision documents:

- RIIO-ED2 will be a five-year price control period, compared to eight years in the current RIIO-ED1 price control.
- CPI or CPIH will be used for inflation measurement in calculating both RAV and allowed returns rather than RPI.
- The baseline allowed return on equity will be set using the same methodology in all RIIO-2 sectors. The new methodology includes; (a) an equity indexation, whereby the allowed return on equity is updated to reflect changes in the risk-free rate, and (b) potentially setting the allowed return 0.5% below the expected return.
- Full debt indexation will be retained.
- The early settlement process (fast tracking) will be removed and replaced with an alternative mechanism to incentivize high-quality, rigorous and ambitious business plans.
- The Totex incentive rate will be based on a confidence level for setting baseline cost allowances.
- A new enhanced engagement model will be introduced requiring distribution companies to set up a customer engagement group to provide Ofgem with a public report of local stakeholders' views on the companies' business plans. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies' business plans.
- There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV as part of base revenue calculations. WPD is currently transitioning to 45-year asset lives for new additions in RIIO-ED1 based on Ofgem's extensive review of asset lives in RIIO-ED1.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem intends network companies and system operators working together to ensure the energy system as a whole is efficient and delivers the best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting this objective. Ofgem is still undecided on how DSO functions

are to be treated. Ofgem will include a DSO reopener to reassess progress made in the establishment of DSO activities.

On July 30, 2020, Ofgem published its consultation on the RIIO-ED2 price control methodology which Ofgem will use to apply its framework decisions listed above. Some of the key aspects in Ofgem's consultation include:

- Proposing a suite of Net-Zero related investment and innovation mechanisms, including a Net Zero re-opener, to ensure that RIIO-ED2 is adaptable and can keep pace with changes in the wider policy and technological environment.
- Consulting on four different models for managing strategic investment to enable more flexibility within the price control and allow DNOs to adapt their investment plans to keep pace with Net Zero.
- Consulting on debt allowance proposals including the debt allowance calibration, the index used, and a possible additional cost of borrowing allowance.
- Consulting on whether the three-stage equity indexation methodology for baseline allowance returns proposed in the Gas Distribution and Transmission Draft Determination should equally apply to the ED sector and if the estimation approach for systematic risk should differ for ED2.
- Proposing to introduce a suite of reforms to define and regulate the distribution system operation. In the first instance, those reforms will apply to DNOs.

WPD and PPL continue to be fully engaged in the RIIO-ED2 process. The comment period on the July 30, 2020 consultation closed on October 1, 2020, which WPD provided a response to, and a decision on the RIIO-ED2 Sector Specific Methodology was made in December 2020 with the Regulatory finance decisions to be confirmed in the first quarter of 2021. Final Determinations for RIIO-ED2 will be made in December 2022. The RIIO-ED2 price control will come into effect on April 1, 2023. PPL cannot predict the outcome of this process or the long-term impact the final RIIO-ED2 price control will have on its financial condition or results of operations.

Challenge to PPL Electric Transmission Formula Rate Return on Equity

(PPL and PPL Electric)

On May 21, 2020, PP&L Industrial Customer Alliance (PPLICA) filed a complaint with the FERC alleging that PPL Electric's base return on equity (ROE) of 11.18% used to determine PPL Electric's formula transmission rate is unjust and unreasonable, and proposing an alternative ROE of 8.00% based on its interpretation of FERC Opinion No. 569. However, also on May 21, 2020, the FERC issued Opinion No. 569-A in response to numerous requests for rehearing of Opinion No. 569, which revised the method for analyzing base ROE. On June 10, 2020, PPLICA filed a Motion to Supplement the May 21, 2020 complaint in which PPLICA continued to allege that PPL Electric's base ROE is unjust and unreasonable, but revised its analysis of PPL Electric's base ROE to reflect the guidance provided in Opinion No. 569-A. The amended complaint proposed an updated alternative ROE of 8.50% and also requested that the FERC preserve the original refund effective date as established by the filing of the original complaint on May 21, 2020. Several parties have filed motions to intervene, including one party who filed Comments in Support of the original complaint.

On July 10, 2020, PPL Electric filed its Answer and supporting Testimony to the PPLICA filings arguing that the FERC should deny the original and amended complaints as they are without merit and fail to demonstrate the existing base ROE is unjust and unreasonable. In addition, PPL Electric contended any refund effective date should be set for no earlier than June 10, 2020 and PPLICA's proposed replacement ROE should be rejected.

On October 15, 2020, the FERC issued an order on the PPLICA complaints which established hearing and settlement procedures, set a refund effective date of May 21, 2020 and granted the motions to intervene. On November 16, 2020, PPL Electric filed a request for rehearing of the portion of the October 15, 2020 Order that set the May 21, 2020 refund effective date. On December 17, 2020, the FERC issued a Notice of Denial of Rehearing by Operation of Law and Providing for Further Consideration. On February 16, 2021, PPL Electric filed a Petition for Review with the United States Court of Appeals for the District of Columbia Circuit of the portion of the October 15, 2020 Order that set the May 21, 2020 refund effective date.

PPL Electric continues to believe its ROE is just and reasonable and that it has meritorious defenses against the original and amended complaints. At this time, PPL Electric cannot predict the outcome of this matter or the range of possible losses, if any, that may be incurred. However, revenue earned from May 21, 2020 through the settlement of this matter may be subject to refund. A change of 50 basis points to the base ROE would impact PPL Electric's net income by approximately $12 million on an annual basis.

FERC Transmission Rate Filing

(PPL, LKE, LG&E and KU)

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application sought termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. In March 2019, the FERC granted LG&E's and KU's request to remove the ongoing credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, subject to FERC review and approval. In July 2019, LG&E and KU proposed their transition mechanism to the FERC and in September 2019, the FERC rejected the proposed transition mechanism and issued a separate order providing clarifications of certain aspects of the March order. In October 2019, LG&E and KU filed requests for rehearing and clarification on the two September orders. In September 2020, the FERC issued its orders in the rehearing process that modified the discussion in, and set aside portions of, the September 2019 orders including adjusting factors impacting the proposed transition mechanism. In October 2020, both LG&E and KU and other parties filed separate motions for rehearing and clarification regarding FERC’s September 2020 orders. In November 2020, the FERC denied the parties’ rehearing requests. In November 2020 and January 2021, LG&E and KU and other parties filed for appeal of the September 2020 and November 2020 orders with the D.C. Circuit Court of Appeals, where certain additional prior petitions for review relating to the proceedings are also pending. On January 15, 2021, LG&E and KU made a filing seeking FERC acceptance of a new proposal for a transition mechanism. LG&E and KU cannot predict the outcome of these proceedings. LG&E and KU currently receive recovery of the waivers and credits provided through other rate mechanisms.

Rate Case Proceedings

(PPL, LKE, LG&E and KU)

On November 25, 2020, LG&E and KU filed requests with the KPSC for an increase in annual electricity and gas revenues of approximately $331 million ($131 million and $170 million in electricity revenues at LG&E and KU and $30 million in gas revenues at LG&E). The revenue increases would be an increase of 11.6% and 10.4% in electricity revenues at LG&E and KU, and an increase of 8.3% in gas revenues at LG&E. LG&E and KU are also requesting approval of a one-year billing credit which will credit customers approximately $53 million ($41 million at LG&E and $12 million at KU). The billing credit represents the return to customers of certain regulatory liabilities on LG&E’s and KU’s balance sheets and serves to partially mitigate the rate increases during the first year in which the new rates are in effect.

LG&E’s and KU’s applications also include a request for a CPCN to deploy Advanced Metering Infrastructure across LG&E’s and KU’s service territories in Kentucky.

The applications are based on a forecasted test year of July 1, 2021 through June 30, 2022 and request an authorized return on equity of 10.0%. Subject to KPSC approval, the requested rates, decreased by the amount of the billing credit, are expected to become effective July 1, 2021. Certain counterparties have intervened in the proceedings. Data discovery and the filing of written testimony will continue through April 2021 and a hearing is expected to occur during the second quarter of 2021. PPL, LKE, LG&E and KU cannot predict the outcome of these proceedings.

(LKE and KU)

In July 2019, KU filed a request with the VSCC for an increase in annual Virginia base electricity revenues of approximately $13 million, representing an increase of 18.2%. In January 2020, KU reached a partial settlement agreement including an increase in annual Virginia base electricity revenues of $9 million effective May 1, 2020, representing an increase of 12.9%. A hearing on the settlement and certain tariff provisions was held in January 2020. On April 6, 2020, the VSCC issued an order approving the settlement and Hearing Examiner tariff provision recommendations. KU implemented the new rates on May 1, 2020.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing 2020 with 2019. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Adjusted Gross Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins

Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	2020	2019	Change 2020 vs. 2019
Operating Revenues	$ 7,607	$ 7,769	$ (162)
Operating Expenses			
Operation			
Fuel	632	709	(77)
Energy purchases	634	723	(89)
Other operation and maintenance	1,944	1,985	(41)
Depreciation	1,287	1,199	88
Taxes, other than income	307	313	(6)
Total Operating Expenses	4,804	4,929	(125)
Other Income (Expense) - net	169	309	(140)
Interest Expense	1,001	994	7
Income Taxes	502	409	93
Net Income	$ 1,469	$ 1,746	$ (277)

Operating Revenues

The increase (decrease) in operating revenues was due to:

		2020 vs. 2019
Domestic:		
PPL Electric Distribution price (a)	$	(27)
PPL Electric Distribution volume (b)		(16)
PPL Electric PLR (c)		(57)
PPL Electric Transmission Formula Rate (d)		82
LKE Volumes (b)		(95)
LKE Demand (e)		(42)
LKE Fuel and other energy prices (f)		(37)
LKE Municipal supply (g)		(28)
LKE Retail rates (h)		64
LKE ECR (i)		29
Other		(1)
Total Domestic		(128)
U.K.:		
Price		13
Volumes (e)		(67)
Foreign currency exchange rates		14
Engineering recharge income		7
Other		(1)
Total U.K.		(34)
Total	$	(162)

(a) Distribution price variance was primarily due to reconcilable cost recovery mechanisms approved by the PUC.
(b) The decrease was primarily due to unfavorable weather.
(c) The decrease was primarily the result of lower energy prices, unfavorable weather and lower usage, partially offset by higher volumes of non-shopping customers.
(d) The increase was primarily due to returns on additional capital investments.
(e) The decrease was primarily due to COVID-19.
(f) The decrease was primarily due to lower recoveries of fuel and energy purchases due to lower commodity costs.
(g) The decrease was primarily due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.
(h) The increase was primarily due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.
(i) The increase was primarily due to higher recoverable depreciation expense as a result of higher depreciation rates effective May 1, 2019.

Fuel

Fuel decreased $77 million in 2020 compared with 2019 at LKE, primarily due to a $46 million decrease in volumes driven by weather, a $27 million decrease in commodity costs and a $9 million decrease in volumes driven by the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

Energy Purchases

Energy purchases decreased $89 million in 2020 compared with 2019, primarily due to a $58 million decrease at PPL Electric due to lower PLR prices of $70 million, partially offset by higher transmission enhancement expenses of $13 million and a $31 million decrease at LKE primarily due to a $24 million decrease in commodity costs.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

		2020 vs. 2019
Domestic:		
PPL Electric Act 129	$	(17)
PPL Electric storm costs		(11)
PPL Electric universal service programs		(10)
PPL Electric vegetation management		(8)
PPL Electric canceled projects		7
LKE administrative and general		(12)
LKE plant operations and maintenance		(11)
LKE distribution operations and maintenance		(9)
LKE COVID-19		7
Stock compensation expense		(7)
Other		(13)
U.K.:		
Pension		6
Third-party engineering		9
Engineering management		5
COVID-19 impact		19
Other		4
Total	$	(41)

Depreciation

The increase (decrease) in depreciation was due to:

		2020 vs. 2019
Additions to PP&E, net	$	55
Depreciation rates (a)		26
Other		7
Total	$	88

(a) Higher depreciation rates were effective May 1, 2019 at LG&E and KU.

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

		2020 vs. 2019
Economic foreign currency exchange contracts (Note 18)	$	(84)
Defined benefit plans - non-service credits (Note 12)		(54)
Charitable contributions		14
Other		(16)
Total	$	(140)

Interest Expense

The increase (decrease) in interest expense was due to:

		2020 vs. 2019
Long-term debt interest	$	23
Short-term debt interest		(18)
Other		2
Total	$	7

Income Taxes

The increase (decrease) in income taxes was due to:

	2020 vs. 2019
Change in pre-tax income	$ (37)
Federal and state income tax return adjustments	(10)
U.S. income tax on foreign earnings net of foreign tax credit	9
Impact of the U.K. Finance Acts on deferred tax balances (a)	115
Kentucky recycling credit, net of federal income tax expense (b)	18
Other	(2)
Total	$ 93

(a) The U.K. corporation tax rate was scheduled to be reduced from 19% to 17%, effective April 1, 2020. On March 11, 2020, the U.K. Finance Act 2020 included a cancellation of the tax rate reduction to 17%, thereby maintaining the corporation tax rate at 19% for financial years 2020 and 2021. The Finance Act 2020 was formally enacted on July 22, 2020. The impact of the cancellation of the corporation tax rate reduction resulted in an increase in deferred tax liabilities and a corresponding deferred tax cost of $106 million.

(b) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

See Note 6 to the Financial Statements for additional information on income taxes.

Segment Earnings

PPL's net income by reportable segments were as follows:

	2020	2019	Change 2020 vs. 2019
U.K. Regulated	$ 686	$ 977	$ (291)
Kentucky Regulated	418	436	(18)
Pennsylvania Regulated	497	458	39
Corporate and Other (a)	(132)	(125)	(7)
Net Income	$ 1,469	$ 1,746	$ (277)

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the statutory tax rate of the entity where the activity is recorded. Special items may include items such as:

- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings and anticipated proceeds from the potential sale of PPL's U.K. utility business. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 18 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment were as follows:

	2020	2019	Change 2020 vs. 2019
U.K. Regulated	$ 1,027	$ 1,032	$ (5)
Kentucky Regulated	423	436	(13)
Pennsylvania Regulated	498	458	40
Corporate and Other	(101)	(120)	19
Earnings from Ongoing Operations	$ 1,847	$ 1,806	$ 41

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

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 U.K. Regulated segment represents 47% of PPL's Net Income for 2020 and 40% of PPL's assets at December 31, 2020.

Net Income and Earnings from Ongoing Operations include the following results:

	2020	2019	Change 2020 vs. 2019
Operating revenues	$ 2,133	$ 2,167	$ (34)
Other operation and maintenance	549	510	39
Depreciation	265	250	15
Taxes, other than income	127	127	—
Total operating expenses	941	887	54
Other Income (Expense) - net	166	294	(128)
Interest Expense	400	405	(5)
Income Taxes	272	192	80
Net Income	686	977	(291)
Less: Special Items	(341)	(55)	(286)
Earnings from Ongoing Operations	$ 1,027	$ 1,032	$ (5)

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations:

	Income Statement Line Item	2020	2019
Foreign currency economic hedges, net of tax of $57, $13 (a)	Other Income (Expense) - net	$ (216)	$ (51)
COVID-19 impact, net of tax of $4, $0 (b)	Other operation and maintenance	(15)	—
U.K. tax rate change (c)	Income Taxes	(102)	—
Strategic corporate initiatives (d)	Income Taxes	(8)	—
Other, net of tax of $0, $1 (e)	Other operation and maintenance	—	(4)
Total		$ (341)	$ (55)

(a) Unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings and anticipated proceeds from the potential sale of the U.K. utility business.

(b) Incremental costs for labor not chargeable to capital projects due to U.K. government lockdown restrictions, purchases of personal protective equipment and other safety related actions associated with the COVID-19 pandemic.
(c) The U.K. Finance Act 2020, formally enacted on July 22, 2020, cancelled the reduction of the corporation tax rate from 19% to 17%. See Note 6 to the Financial Statements for additional information.
(d) U.S. tax on distribution of intercompany note receivable from the U.K. utility business related to the potential sale.
(e) Settlement of a contractual dispute.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as U.K. Adjusted Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	2020 vs. 2019
U.K.	
U.K. Adjusted Gross Margins	$ (57)
Other operation and maintenance	(15)
Depreciation	(14)
Other Income (Expense) - net	(45)
Interest expense	8
Income taxes	16
U.S.	
Income taxes	(6)
Operation and maintenance	2
Foreign currency exchange, after-tax	106
Earnings from Ongoing Operations	(5)
Special items, after-tax	(286)
Net Income	$ (291)

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher U.K. operation and maintenance expense in 2020 compared with 2019 primarily due to increases in various costs that were not individually significant in comparison to the prior year.
- Higher depreciation expense in 2020 compared with 2019 primarily due to additions to PP&E, net of retirements.
- Lower other income (expense) - net in 2020 compared with 2019 primarily due to lower pension income.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations conducted by 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 Kentucky Regulated segment represents 28% of PPL's Net Income for 2020 and 33% of PPL's assets at December 31, 2020.

Net Income and Earnings from Ongoing Operations include the following results:

	2020	2019	Change 2020 vs. 2019
Operating revenues	$ 3,106	$ 3,206	$ (100)
Fuel	632	709	(77)
Energy purchases	143	174	(31)
Other operation and maintenance	834	861	(27)
Depreciation	606	547	59
Taxes, other than income	77	74	3
Total operating expenses	2,292	2,365	(73)
Other Income (Expense) - net	2	(13)	15
Interest Expense	300	298	2
Income Taxes	98	94	4
Net Income	418	436	(18)
Less: Special Items	(5)	—	(5)
Earnings from Ongoing Operations	$ 423	$ 436	$ (13)

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations:

	Income Statement Line Item	2020	2019
COVID-19 impact, net of tax of $2, $0 (a)	Other operation and maintenance	$ (5)	$ —
Total		$ (5)	$ —

(a) Incremental costs for outside services, customer payment processing, personal protective equipment and other safety related actions associated with the COVID-19 pandemic.

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Kentucky Adjusted Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line item.

	2020 vs. 2019
Kentucky Adjusted Gross Margins	$ (30)
Other operation and maintenance	33
Depreciation	(21)
Taxes, other than income	(2)
Other Income (Expense) - net	15
Interest Expense	(2)
Income Taxes	(6)
Earnings from Ongoing Operations	(13)
Special Items, after-tax	(5)
Net Income	$ (18)

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.

- Lower other operation and maintenance expense in 2020 compared with 2019 primarily due to a $12 million decrease in administrative and general expenses, a $9 million decrease in plant operations and maintenance and a $9 million decrease in distribution maintenance.

- Higher depreciation expense in 2020 compared with 2019 primarily due to a $14 million increase related to additional assets placed into service, net of retirements, and a $7 million increase related to higher depreciation rates effective May 1, 2019.

- Higher income taxes in 2020 compared with 2019, primarily due to a deferred income tax benefit recorded in 2019 related to a Kentucky recycling credit of $17 million, partially offset by higher amortization of excess deferred federal and state income taxes of $5 million and an increase in income tax credits of $5 million.

Pennsylvania 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. The Pennsylvania Regulated segment represents 34% of PPL's Net Income for 2020 and 26% of PPL's assets at December 31, 2020.

Net Income and Earnings from Ongoing Operations include the following results:

	2020	2019	Change 2020 vs. 2019
Operating revenues	$ 2,330	$ 2,358	$ (28)
Energy purchases	491	549	(58)
Other operation and maintenance	513	566	(53)
Depreciation	403	386	17
Taxes, other than income	107	112	(5)
Total operating expenses	1,514	1,613	(99)
Other Income (Expense) - net	20	31	(11)
Interest Expense	172	169	3
Income Taxes	167	149	18
Net Income	497	458	39
Less: Special Items	(1)	—	(1)
Earnings from Ongoing Operations	$ 498	$ 458	$ 40

The following after-tax gains (losses), which management considers special items, impacted the Pennsylvania Regulated segment's results and are excluded from Earnings from Ongoing Operations:

	Income Statement Line Item	2020	2019
COVID-19 impact, net of tax of $0, $0 (a)	Other operation and maintenance	$ (1)	$ —
Total		$ (1)	$ —

(a) Incremental costs for outside services, personal protective equipment and other safety related actions associated with the COVID-19 pandemic.

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as Pennsylvania Adjusted Gross Margins and the items that management considers special on separate lines and not in their respective Statement of Income line items.

	2020 vs. 2019
Pennsylvania Adjusted Gross Margins	$ 62
Other operation and maintenance	19
Depreciation	(14)
Taxes, other than income	5
Other Income (Expense) - net	(11)
Interest Expense	(3)
Income Taxes	(18)
Earnings from Ongoing Operations	40
Special Items, after-tax	(1)
Net Income	$ 39

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations, and a reconciliation to PPL's "Net Income" for the years ended December 31:

	2020				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$ 686	$ 418	$ 497	$ (132)	$ 1,469
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $57	(216)	—	—	—	(216)
Talen litigation costs, net of tax of $3 (a)	—	—	—	(13)	(13)
COVID-19 impact, net of tax of $4, $2, $0, $0	(15)	(5)	(1)	(1)	(22)
U.K. tax rate change	(102)	—	—	—	(102)
Strategic corporate initiatives, net of tax of $0, $0, $0, $3 (b)	(8)	—	—	(11)	(19)
Executive retirement benefits, net of tax of $2 (c)	—	—	—	(6)	(6)
Total Special Items	(341)	(5)	(1)	(31)	(378)
Earnings from Ongoing Operations	$ 1,027	$ 423	$ 498	$ (101)	$ 1,847

	2019				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	$ 977	$ 436	$ 458	$ (125)	$ 1,746
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of $13	(51)	—	—	—	(51)
Talen litigation costs, net of tax of $1 (a)	—	—	—	(5)	(5)
Other, net of tax of $1	(4)	—	—	—	(4)
Total Special Items	(55)	—	—	(5)	(60)
Earnings from Ongoing Operations	$ 1,032	$ 436	$ 458	$ (120)	$ 1,806

(a) Legal expenses related to litigation with a former affiliate, Talen Montana. See Note 14 to the Financial Statements for additional information.
(b) Costs related to the process to sell the U.K. utility business, announced on August 10, 2020. Similar costs of $4 million, after-tax, were incurred in 2019, but not treated as a special item.
(c) Settlement charge from the remeasurement of the projected benefit obligation for the PPL Supplemental Executive Retirement Plan related to a lump-sum payment made to a former PPL executive.

Adjusted Gross Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses.

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

- "Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, as well as the Kentucky Regulated segment's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.

- "Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, Storm Damage and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the

Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Adjusted Gross Margins

The following table shows Adjusted Gross Margins by PPL's reportable segment and by component, as applicable, for the year ended December 31 as well as the changes between periods. The factors that gave rise to the changes are described following the table.

	2020	2019	Change 2020 vs. 2019
U.K. Regulated			
U.K. Adjusted Gross Margins	$ 1,954	$ 1,998	$ (44)
Impact of changes in foreign currency exchange rates			13
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			$ (57)
Kentucky Regulated			
Kentucky Adjusted Gross Margins	$ 2,081	$ 2,111	$ (30)
Pennsylvania Regulated			
Pennsylvania Adjusted Gross Margins			
Distribution	$ 907	$ 927	$ (20)
Transmission	682	600	82
Total Pennsylvania Adjusted Gross Margins	$ 1,589	$ 1,527	$ 62

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased in 2020 compared with 2019 primarily due to $67 million of lower volumes, of which $82 million was due to the COVID-19 lockdown restrictions that were effective beginning the latter half of March 2020 and $11 million from the April 1, 2020 price decrease, driven by lower true-up mechanisms mainly offset by higher base demand revenue, partially offset by $24 million from the April 1, 2019 price increase.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins decreased in 2020 compared with 2019 due to $42 million of lower commercial and industrial demand revenue primarily due to impacts of COVID-19, $39 million of decreased sales volumes primarily due to weather, and a $17 million decrease due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019, partially offset by $64 million due to higher retail rates approved by the KPSC effective May 1, 2019, inclusive of the termination of the TCJA bill credit mechanism.

Pennsylvania Adjusted Gross Margins

Distribution

Distribution Adjusted Gross Margins decreased in 2020 compared with 2019. No items were individually significant in comparison to the prior year.

Transmission

Transmission Adjusted Gross Margins increased in 2020 compared with 2019 primarily due to returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability.

Reconciliation of Adjusted Gross Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31:

	2020				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 2,095 (c)	$ 3,106	$ 2,331	$ 75	$ 7,607
Operating Expenses					
Fuel	—	632	—	—	632
Energy purchases	—	143	491	—	634
Other operation and maintenance	141	91	91	1,621	1,944
Depreciation	—	154	53	1,080	1,287
Taxes, other than income	—	5	107	195	307
Total Operating Expenses	141	1,025	742	2,896	4,804
Total	$ 1,954	$ 2,081	$ 1,589	$ (2,821)	$ 2,803

	2019				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 2,129 (c)	$ 3,206	$ 2,358	$ 76	$ 7,769
Operating Expenses					
Fuel	—	709	—	—	709
Energy purchases	—	174	549	—	723
Other operation and maintenance	131	92	125	1,637	1,985
Depreciation	—	116	50	1,033	1,199
Taxes, other than income	—	4	107	202	313
Total Operating Expenses	131	1,095	831	2,872	4,929
Total	$ 1,998	$ 2,111	$ 1,527	$ (2,796)	$ 2,840

(a) Represents amounts excluded from Adjusted Gross Margins.
(b) As reported on the Statements of Income.
(c) 2020 and 2019 exclude $38 million of ancillary revenues.

2021 Outlook

(All Registrants)

As a result of the initiation of PPL's formal process to sell its U.K. utility business, PPL is not providing future earnings guidance at this time.

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Business," "Item 1A. Risk Factors" in our Annual Report on Form 10-K, the rest of this section, and Notes 1, 7 and 14 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

Financial Condition

Liquidity and Capital Resources

(All Registrants)

The Registrants' cash flows from operations and access to cost effective bank and capital markets are subject to risks and uncertainties.

The Registrants had the following at:

	PPL (a)		PPL Electric		LKE		LG&E		KU	
December 31, 2020										
Cash and cash equivalents	$	708	$	40	$	29	$	7	$	22
Short-term debt		1,662		—		465		262		203
Long-term debt due within one year		1,574		400		674		292		132
Notes payable with affiliates				—		251		—		—
December 31, 2019										
Cash and cash equivalents	$	815	$	262	$	27	$	15	$	12
Short-term debt		1,151		—		388		238		150
Long-term debt due within one year		1,172		—		975		—		500
Notes payable with affiliates				—		150		—		—

(a) At December 31, 2020, $261 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 6 to the Financial Statements for additional information on undistributed earnings of WPD.

(All Registrants)

Net cash provided by (used in) operating, investing and financing activities for the years ended December 31 and the changes between periods were as follows:

	PPL		PPL Electric		LKE		LG&E		KU	
2020										
Operating activities	$	2,746	$	884	$	1,003	$	483	$	543
Investing activities		(3,258)		(1,151)		(963)		(456)		(507)
Financing activities		386		43		(38)		(35)		(26)
2019										
Operating activities	$	2,427	$	913	$	938	$	492	$	553
Investing activities		(3,080)		(1,117)		(1,094)		(482)		(610)
Financing activities		836		199		159		(5)		55
2020 vs. 2019 Change										
Operating activities	$	319	$	(29)	$	65	$	(9)	$	(10)
Investing activities		(178)		(34)		131		26		103
Financing activities		(450)		(156)		(197)		(30)		(81)

Operating Activities

The components of the change in cash provided by (used in) operating activities were as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2020 vs. 2019					
Change - Cash Provided (Used):					
Net income	$ (277)	$ 40	$ (18)	$ 12	$ (13)
Non-cash components	444	25	38	(31)	13
Working capital	132	(50)	42	(6)	(1)
Defined benefit plan funding	(40)	—	(20)	(5)	—
Other operating activities	60	(44)	23	21	(9)
Total	$ 319	$ (29)	$ 65	$ (9)	$ (10)

(PPL)

PPL cash provided by operating activities in 2020 decreased $319 million compared with 2019.

- Net income decreased $277 million between periods and included an increase in net non-cash charges of $444 million. The increase in net non-cash charges was primarily due to an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, increased cost of removal and salvage amortization and higher depreciation rates), an increase in deferred income taxes (due to the cancellation of the U.K. corporation tax rate reduction, book versus tax plant timing differences and Federal net operating losses) and an increase in unrealized gains on derivatives, and other hedging activities, partially offset by a decrease in amortization expense.

- The $132 million increase in cash from changes in working capital was primarily due to an increase in accounts payable (primarily due to timing of disbursement of payments) and a decrease in regulatory assets and liabilities, net primarily due to the timing of rate recovery mechanisms), partially offset by an increase in accounts receivable (primarily due to timing of receipts).

- The $60 million increase in cash provided by other operating activities was driven by an increase in other non-current assets (primarily related to non-current regulatory assets) and an increase in other non-current liabilities (primarily related to an increase in non-current regulatory liabilities partially offset by a decrease in accrued retirement obligations).

(PPL Electric)

PPL Electric's cash provided by operating activities in 2020 decreased $29 million compared with 2019.

- Net income increased $40 million between the periods and included an increase in non-cash components of $25 million. The increase in non-cash components was primarily due to an increase in depreciation expense (primarily due to additional assets placed in service, net of retirements and increased cost of removal and salvage amortization) and an increase in other expenses (primarily due to an increase in canceled projects).

- The $50 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to timing of receipts), partially offset by a decrease in unbilled revenues (primarily due to reduced prices and volume).

- The $44 million decrease in cash provided by other operating activities was driven primarily by an increase in non-current assets (primarily related to prepayments).

(LKE)

LKE's cash provided by operating activities in 2020 increased $65 million compared with 2019.

- Net income decreased $18 million between the periods and included an increase in non-cash components of $38 million. The increase in non-cash components was primarily driven by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements and higher depreciation rates), partially offset by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences, partially offset by increased benefit from net operating losses).

- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets (primarily due to the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments) and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in unbilled revenue (primarily due to weather).

(LG&E)

LG&E's cash provided by operating activities in 2020 decreased $9 million compared with 2019.

- Net income increased $12 million between the periods and included a decrease in non-cash components of $31 million. The decrease in non-cash components was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences), partially offset by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements and higher depreciation rates).

- Cash from changes in working capital was consistent primarily due to a decrease in accounts payable (primarily due to timing of payments) and a decrease in taxes payable (primarily due to timing of payments), partially offset by a decrease in net regulatory assets (primarily due to the timing of rate recovery mechanisms).

- The increase in cash provided by other operating activities was driven primarily by an increase in other liabilities (primarily related to noncurrent regulatory liabilities) and a decrease in ARO expenditures.

(KU)

KU's cash provided by operating activities in 2020 decreased $10 million compared with 2019.

- Net income decreased $13 million between the periods and included an increase in non-cash components of $13 million. The increase in non-cash components was driven by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements and higher depreciation rates), partially offset by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences).

- Cash from changes in working capital was consistent primarily due to an increase in unbilled revenue (primarily due to weather), offset by an increase in accounts payable (primarily due to timing of payments).

Investing Activities

(All Registrants)

The components of the change in cash provided by (used in) investing activities were as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2020 vs. 2019					
Change - Cash Provided (Used):					
Expenditures for PP&E	$ (166)	$ (31)	$ 128	$ 26	$ 100
Purchase of investments	55	—	—	—	—
Proceeds from sale of investments	(60)	—	—	—	—
Other investing activities	(7)	(3)	3	—	3
Total	$ (178)	$ (34)	$ 131	$ 26	$ 103

For PPL, in 2020 compared with 2019, the increase in expenditures was due to higher project expenditures at WPD and PPL Electric, partially offset by lower project expenditures at LKE, LG&E and KU. The increase in expenditures at WPD was primarily due to an increase in expenditures to enhance system reliability. The increase in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to ongoing efforts to improve reliability and replace aging infrastructure. The decrease in expenditures at LKE was primarily due to decreased spending for environmental water projects at LG&E and KU's Trimble County plant, LG&E's Mill Creek plant and KU's Ghent plant, and decreased spending at LG&E and KU's Trimble County landfill, partially offset by spending on gas transmission projects at LG&E and spending on various other projects at LG&E and KU that are not individually significant.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2021 through 2025.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities were as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2020 vs. 2019					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	$ (170)	$ (43)	$ (982)	$ (199)	$ (308)
Debt issuance/retirement, affiliate		—	550	—	—
Proceeds from project financing	173	—	—	—	—
Stock issuances/redemptions, net	(1,133)	—	—	—	—
Dividends	(83)	86	—	21	29
Capital contributions/distributions, net	—	(205)	(38)	78	60
Issuance of term loan	300	—	—	—	—
Issuance of commercial paper	73	—	73	41	32
Changes in net short-term debt	405	—	130	24	106
Note payable with affiliate		—	64	—	—
Other financing activities	(15)	6	6	5	—
Total	$ (450)	$ (156)	$ (197)	$ (30)	$ (81)

(All Registrants)

In 2020 compared with 2019, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general expenditures.

See "Long-term Debt and Equity Securities" below for additional information on current year activity. See "Forecasted Sources of Cash" for a discussion of the Registrants' plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to the Registrants. Also see "Forecasted Uses of Cash" for a discussion of PPL's plans to pay dividends on common securities in the future, as well as the Registrants' maturities of long-term debt.

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2020 included:

	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
Cash Flow Impact:			
PPL	$ 2,167	$ 1,172	$ 34
PPL Electric	250	—	
LKE	1,048	975	
LG&E	—	—	
KU	498	500	

(a) Issuances are net of pricing discounts, where applicable, and exclude the impact of debt issuance costs. Includes debt issuances with affiliates.

See Note 8 to the Financial Statements for additional long-term debt information.

(PPL)

Equity Securities Activities

See Note 8 to the Financial Statements for additional information.

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares.

There were no issuances under the ATM program for the twelve months ended December 31, 2020 and 2019. PPL issued 42 million shares of common stock and received proceeds of $119 million for the year ended December 31, 2018. The ATM program expires in February 2021.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2021.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings of $100 million under PPL Capital Funding's term loan agreement due in March 2022, which are reflected in "Long-term Debt" on the Balance Sheets. At December 31, 2020, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	$ 1,900	$ 400	$ 402	$ 1,098
PPL Electric Credit Facility	650	—	1	649
LG&E Credit Facilities	500	—	262	238
KU Credit Facilities	400	—	203	197
Total LKE	900	—	465	435
Total U.S. Credit Facilities (a) (b)	$ 3,450	$ 400	$ 868	$ 2,182
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 311	£ —	£ 744

(a) The syndicated credit facilities and PPL Capital Funding's bilateral facility, each 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 facility, and other customary covenants.

The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 12%, PPL Electric - 6%, LKE - 7%, LG&E - 7% and KU - 7%.

(b) Each company pays customary fees under its respective syndicated credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(c) 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.

The amounts borrowed at December 31, 2020, include USD-denominated borrowings of $249 million and GBP-denominated borrowings of £124 million, which equated to $165 million. At December 31, 2020, the USD equivalent of unused capacity under the U.K. committed credit facilities was approximately $991 million.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 14% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2020, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	$ 375	$ 251	$ —	$ 124
LG&E Money Pool (a)	750	—	262	488
KU Money Pool (a)	650	—	203	447

(a) LG&E and KU participate in an intercompany agreement whereby LKE and/or KU make available to LG&E funds up to $750 million and LKE and/or LG&E make available to KU funds up to $650 million, at an interest rate based on a market index of commercial paper issues. However, the FERC has authorized a maximum aggregate short-term debt limit for each utility at $750 million for LG&E and $650 million for KU from all covered sources.

See Note 15 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

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 credit facilities. The following commercial paper programs were in place at:

	December 31, 2020		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	$ 1,500	$ 402	$ 1,098
PPL Electric	650	—	650
LG&E	350	262	88
KU	350	203	147
Total LKE	700	465	235
Total PPL	$ 2,850	$ 867	$ 1,983

Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to issue, at the discretion of management and subject to market conditions, up to $4.0 billion of long-term debt and equity securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(PPL Electric)

PPL Electric is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $650 million of long-term debt securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $400 million of long-term debt securities, the proceeds of which would be used to repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

KU is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to $300 million of long-term debt securities, the proceeds of which would be used to repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

Contributions from Parent/Member (PPL Electric, LKE, LG&E and KU)

From time to time, LKE's member or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

Forecasted Uses of Cash

(All Registrants)

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by LKE to its member, and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2021 through 2025. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

		Projected				
	Total	2021 (b)	2022	2023	2024	2025
PPL						
Construction expenditures (a)						
Generating facilities	$ 811	$ 239	$ 104	$ 119	$ 171	$ 178
Distribution facilities	9,629	2,030	1,823	1,826	1,984	1,966
Transmission facilities	2,408	648	523	403	420	414
Environmental	567	201	154	130	63	19
Other	1,276	235	262	288	251	240
Total Capital Expenditures	$ 14,691	$ 3,353	$ 2,866	$ 2,766	$ 2,889	$ 2,817
PPL Electric (a)						
Distribution facilities	$ 1,802	$ 437	$ 409	$ 315	$ 327	$ 314
Transmission facilities	1,738	419	407	292	312	308
Total Capital Expenditures	$ 3,540	$ 856	$ 816	$ 607	$ 639	$ 622
LKE (a)						
Generating facilities	$ 811	$ 239	$ 104	$ 119	$ 171	$ 178
Electricity Distribution facilities	1,145	266	224	223	218	214
Natural Gas Distribution facilities	379	143	52	42	101	41
Transmission facilities	670	229	116	111	108	106
Environmental	567	201	154	130	63	19
Other	687	125	122	155	148	137
Total Capital Expenditures	$ 4,259	$ 1,203	$ 772	$ 780	$ 809	$ 695
LG&E (a)						
Generating facilities	$ 348	$ 115	$ 51	$ 51	$ 60	$ 71
Electricity Distribution facilities	532	127	97	102	104	102
Natural Gas Distribution facilities	379	143	52	42	101	41
Transmission facilities	103	44	11	16	12	20
Environmental	193	60	48	47	28	10
Other	320	51	57	77	71	64
Total Capital Expenditures	$ 1,875	$ 540	$ 316	$ 335	$ 376	$ 308
KU (a)						
Generating facilities	$ 463	$ 124	$ 53	$ 68	$ 111	$ 107
Electricity Distribution facilities	613	139	127	121	114	112

		Projected				
	Total	2021 (b)	2022	2023	2024	2025
Transmission facilities	567	185	105	95	96	86
Environmental	374	141	106	83	35	9
Other	357	73	64	76	74	70
Total Capital Expenditures	$ 2,374	$ 662	$ 455	$ 443	$ 430	$ 384

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately $138 million for PPL, $92 million for PPL Electric, $35 million for LKE, $19 million for LG&E and $16 million for KU over the five-year period.
(b) The 2021 total excludes amounts included in accounts payable as of December 31, 2020.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2020, estimated contractual cash obligations were as follows:

	Total	2021	2022-2023	2024-2025	After 2026
PPL					
Long-term Debt (a)	$ 23,249	$ 1,574	$ 3,926	$ 1,833	$ 15,916
Interest on Long-term Debt (b)	15,016	914	1,689	1,441	10,972
Operating Leases (c)	110	27	40	23	20
Purchase Obligations (d)	2,437	940	877	251	369
Pension Benefit Plan Funding Obligations (e)	452	153	152	147	—
Total Contractual Cash Obligations	$ 41,264	$ 3,608	$ 6,684	$ 3,695	$ 27,277
PPL Electric					
Long-term Debt (a)	$ 4,289	$ 400	$ 814	$ —	$ 3,075
Interest on Long-term Debt (b)	3,269	162	291	278	2,538
Unconditional Power Purchase Obligations	9	9	—	—	—
Total Contractual Cash Obligations	$ 7,567	$ 571	$ 1,105	$ 278	$ 5,613
LKE					
Long-term Debt (a)	$ 6,116	$ 674	$ 13	$ 550	$ 4,879
Interest on Long-term Debt (b)	4,006	235	440	439	2,892
Operating Leases (c)	57	17	23	14	3
Coal and Natural Gas Purchase Obligations (f)	1,471	526	757	178	10
Unconditional Power Purchase Obligations (g)	525	34	68	64	359
Construction Obligations (h)	169	145	23	1	—
Other Obligations	184	147	29	8	—
Total Contractual Cash Obligations	$ 12,528	$ 1,778	$ 1,353	$ 1,254	$ 8,143
LG&E					
Long-term Debt (a)	$ 2,024	$ 292	$ —	$ 300	$ 1,432
Interest on Long-term Debt (b)	1,439	74	142	142	1,081
Operating Leases (c)	22	6	9	6	1
Coal and Natural Gas Purchase Obligations (f)	842	271	466	98	7
Unconditional Power Purchase Obligations (g)	364	23	47	44	250
Construction Obligations (h)	55	50	5	—	—
Other Obligations	42	42	—	—	—
Total Contractual Cash Obligations	$ 4,788	$ 758	$ 669	$ 590	$ 2,771
KU					
Long-term Debt (a)	$ 2,642	$ 132	$ 13	$ 250	$ 2,247

	Total	2021	2022-2023	2024-2025	After 2026
Interest on Long-term Debt (b)	2,189	103	205	204	1,677
Operating Leases (c)	33	10	14	7	2
Coal and Natural Gas Purchase Obligations (f)	629	255	291	80	3
Unconditional Power Purchase Obligations (g)	161	11	21	20	109
Construction Obligations (h)	74	66	8	—	—
Other Obligations	79	59	13	7	—
Total Contractual Cash Obligations	$ 5,807	$ 636	$ 565	$ 568	$ 4,038

(a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 8 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of PPL Electric, LG&E and KU. The Registrants do not have any significant finance lease obligations.
(b) Assumes interest payments through stated maturity or earlier put dates. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
(c) See Note 10 to the Financial Statements for additional information.
(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes, as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.
(e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2019. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2021 for PPL's U.S. pension plans. Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 12 to the Financial Statements for a discussion of expected contributions.
(f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 14 to the Financial Statements for additional information.
(g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 14 to the Financial Statements for additional information.
(h) Represents construction commitments, which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts intended to maintain a capitalization structure that supports investment grade credit ratings. In November 2020, PPL declared its quarterly common stock dividend, payable January 4, 2021, at 41.50 cents per share (equivalent to $1.66 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.

Subject to certain exceptions, PPL may not 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, 2020, no interest payments were deferred.

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

From time to time, as determined by their respective Board of Directors, the Registrants pay dividends, distributions or return capital, as applicable, to their respective shareholders or members. Certain of the credit facilities of PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends or distributions.

(All Registrants)

See Note 8 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.

Purchase or Redemption of Debt Securities

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities in open market or privately negotiated transactions, in exchange transactions or otherwise, depending upon prevailing market conditions, available cash and other factors, and may be commenced or suspended at any time. The amounts involved may be material.

Rating Agency Actions

Moody's and S&P periodically review the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2020.

	Senior Unsecured		Senior Secured		Commercial Paper	
Issuer	**Moody's**	**S&P**	**Moody's**	**S&P**	**Moody's**	**S&P**
PPL						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
WPD plc	Baa3	BBB+				
WPD (East Midlands)	Baa1	A-				
WPD (West Midlands)	Baa1	A-				
WPD (South Wales)	Baa1	A-				
WPD (South West)	Baa1	A-				
PPL and PPL Electric						
PPL Electric			A1	A	P-2	A-2
PPL and LKE						
LKE	Baa1	BBB+				
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

The rating agencies have taken the following actions related to the Registrants and their subsidiaries.

(PPL)

In April 2020, Moody’s and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding’s $1 billion 4.125% Senior Notes due 2030. The notes were issued April 1, 2020.

(PPL and PPL Electric)

In September 2020, Moody's and S&P assigned ratings of A1 and A to PPL Electric's $250 million First Mortgage Bonds, Floating Rate Series, due 2023. The bonds were issued October 1, 2020.

In September 2020, Moody's and S&P assigned ratings of A1 and A to PEDFA's $90 million Pollution Control Revenue Refunding Bonds, Series 2008, due 2023, previously issued on behalf of PPL Electric. The bonds were remarketed October 1, 2020.

(PPL, LKE and LG&E)

In August 2020, Moody's and S&P assigned ratings of A1 and A to the Louisville/Jefferson County Metro Government, Kentucky's $23 million 0.90% Pollution Control Revenue Bonds, 2001 Series A, due 2026, previously issued on behalf of LG&E. The bonds were remarketed September 3, 2020.

In August 2020, Moody's and S&P assigned ratings of A1 and A/A-2 to the County of Trimble, Kentucky's $125 million 1.30% Pollution Control Revenue Refunding Bonds, 2016 Series A, due 2044, previously issued on behalf of LG&E. The bonds were remarketed September 3, 2020.

(PPL, LKE and KU)

In May 2020, Moody's and S&P assigned ratings of A1 and A to KU's $500 million 3.30% First Mortgage Bonds due 2050. The bonds were issued June 3, 2020.

Ratings Triggers

(PPL)

As discussed in Note 8 to the Financial Statements, certain of WPD's senior unsecured notes 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. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £5.8 billion (approximately $7.7 billion) nominal value at December 31, 2020.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 18 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2020.

Guarantees for Subsidiaries *(PPL)*

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 14 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements *(All Registrants)*

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 14 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

(All Registrants)

See Notes 1, 17 and 18 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of 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.

The following interest rate hedges were outstanding at December 31:

	2020				2019		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
PPL							
Cash flow hedges							
Cross-currency swaps (c)	$ 702	$ 148	$ (69)	2028	$ 702	$ 156	$ (71)
Economic hedges							
Interest rate swaps (d)	64	(24)	—	2033	147	(22)	(1)
LKE							
Economic hedges							
Interest rate swaps (d)	64	(24)	—	2033	147	(22)	(1)
LG&E							
Economic hedges							
Interest rate swaps (d)	64	(24)	—	2033	147	(22)	(1)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.
(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.
(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2020 and 2019 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2020	2019
PPL	$ 582	$ 655
PPL Electric	175	197
LKE	199	198
LG&E	74	84
KU	118	104

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in and earnings of U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions, including the previously announced potential sale of its U.K. utility business, and net investments.

The following foreign currency hedges were outstanding at December 31:

	2020				2019		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Economic hedges (b)	£ 3,880	$ (137)	$ (326)	2021	£ 859	$ 137	$ (89)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To economically hedge the translation of expected earnings and anticipated transactions, including the previously announced potential sale of the U.K. utility business, denominated in GBP.

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. 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

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. 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 regulations, recovery of such exposure occurs on a two year lag. See Note 1 to the Financial Statements 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.

Defined Benefit Plans - Equity Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of equity securities price risk on plan assets.

Credit Risk

(All Registrants)

Credit risk is the risk that the Registrants would incur a loss as a result of nonperformance by counterparties of their contractual obligations. The Registrants maintain credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, the Registrants, as applicable, have concentrations of suppliers and customers among electric utilities, financial institutions and energy marketing and trading companies. These concentrations may impact the Registrants' overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

(PPL and PPL Electric)

In January 2017, the PUC issued a Final Order approving PPL Electric's default service plan for the period June 2017 through May 2021, which included a total of eight semi-annual solicitations for electricity supply. Additionally, on December 17, 2020, the PUC approved PPL Electric's next default service plan for the period of June 2021 through May 2025, which includes a total of eight solicitations for electricity supply held semiannually in April and October. The new plan also includes eight solicitations for alternative energy credits held semiannually in January and July with the first solicitation being in July 2021 and the final solicitation being in January 2025.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2020, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Note 18 to the Financial Statements for additional information on credit risk.

Foreign Currency Translation *(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2020, changes in this exchange rate resulted in a foreign currency translation gain of $267 million, which reflected a $433 million increase to PP&E and a $76 million increase to goodwill partially offset by a $214 million increase to long-term debt and a $28 million increase to other net liabilities. In 2019, changes in this exchange rate resulted in a foreign currency translation gain of $106 million, which reflected a $181 million increase to PP&E, $34 million increase to goodwill and $12 million decrease to other net liabilities partially offset by a $121 million increase to long-term debt. In 2018, changes in this exchange rate resulted in a foreign currency translation loss of $453 million, which reflected a $754 million decrease to PP&E and $150 million decrease to goodwill partially offset by a $445 million decrease to long-term debt and a decrease of $6 million to other net liabilities.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 15 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

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)

On August 10, 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. There can be no assurance of any specific outcome, including whether the sale process will result in the completion of any potential transaction, the timing or terms thereof, the value or benefits that may be realized or the effect that any potential transaction will have on future financial results. See Note 9 to the Financial Statements for additional information on the potential sale of the U.K. utility business.

(All Registrants)

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The costs of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. 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.

See "Legal Matters" in Note 14 to the Financial Statements for a discussion of the more significant environmental claims. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2021 through 2025. See Note 20 to the Financial Statements for information related to the impacts of CCRs on AROs. See "Business - Environmental Matters" for additional information regarding climate change, NAAQS and other environmental matters.

Sustainability

Increasing attention has been focused on a broad range of corporate activities under the heading of "sustainability", which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer's business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities Exchange Act of 1934, as amended (the "'34 Act"), or that issuers voluntarily include certain sustainability disclosure in their '34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

As has been PPL's practice, to the extent sustainability issues have or may have a material impact on the Registrants' financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report including tracking reductions related to the company's goal to reduce carbon emissions and post that report on its corporate website at www.pplweb.com and on www.pplsustainability.com. Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories. PPL also participates in efforts by the Edison Electric Institute to provide the appropriate subset of sustainability information that can be applied consistently across the electric utility industry. Additionally, PPL publicly discloses its corporate political contributions and responds to the CDP climate survey.

Cybersecurity

See "Cybersecurity Management" in "Business" for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

Competition

See "Competition" under each of PPL's reportable segments in "Business - General - Segment Information" for a discussion of competitive factors affecting the Registrants.

New Accounting Guidance

See Note 1 to the Financial Statements for a discussion of new accounting guidance adopted.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to an understanding of the reported financial condition or results of operations and require management to make estimates or other judgments of matters that are inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note

1 to the Financial Statements). Senior management has reviewed with PPL's Audit Committee these critical accounting policies, the following disclosures regarding their application, and the estimates and assumptions regarding them.

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. See Notes 1, 7 and 12 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors by Registrant and whether a Registrant or its subsidiaries sponsor (S) or participate in and receives allocations (P) from those plans is shown in the table below.

Plan Sponsor	PPL	PPL Electric	LKE	LG&E	KU
PPL Services	S	P			
WPD (a)	S				
LKE			S	P	P

(a) Does not sponsor or participate in other postretirement benefits plans.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets and liabilities based on estimated results. Any differences between actual and estimated results are recorded in AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The significant assumptions are:

- Discount Rate - In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of Aa-rated non-callable (or callable with make-whole provisions) bonds that could be purchased for a hypothetical settlement portfolio. The plan sponsors then use the single discount rate derived from matching the discounted benefit payment stream to the market value of the selected bond portfolio.

  In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. WPD uses the single weighted-average discount rate derived from the spot rates to discount the benefit obligation. In addition, the spot rates that match the cash flows associated with the service cost and interest cost are used to discount those components of net periodic defined benefit cost.

- Expected Return on Plan Assets - 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.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement. In selecting a rate of compensation increase, plan sponsors consider past experience, the potential impact of movements in inflation rates and expectations of ongoing compensation practices.

See Note 12 to the Financial Statements for details of the assumptions selected for pension and other postretirement benefits. A variance in the assumptions could significantly impact accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities.

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The inverse of this change would have the opposite impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

Actuarial assumption	Increase (Decrease)
Discount Rate	(0.25 %)
Expected Return on Plan Assets	(0.25 %)
Rate of Compensation Increase	0.25 %

Actuarial assumption	Increase (Decrease) Defined Benefit Asset	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL					
Discount rates	$ (424)	$ 155	$ 480	$ 99	$ 47
Expected return on plan assets	n/a	n/a	n/a	n/a	32
Rate of compensation increase	(62)	14	68	8	13
PPL Electric					
Discount rates		61	—	61	6
Expected return on plan assets		n/a	—	n/a	4
Rate of compensation increase		4	—	4	1
LKE					
Discount rates	—	68	30	38	9
Expected return on plan assets	n/a	n/a	n/a	n/a	3
Rate of compensation increase	n/a	8	4	4	2
LG&E					
Discount rates	(18)	2	n/a	20	3
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(2)	—	n/a	2	—
KU					
Discount rates	(16)	2	n/a	18	3
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(2)	—	n/a	2	—

Income Taxes *(All Registrants)*

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 on tax returns, valuation allowances on deferred tax assets, as well as whether the undistributed earnings of WPD are considered indefinitely reinvested.

Additionally, significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. 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 in the future.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers several factors in assessing the expected realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. When evaluating the need for valuation allowances, the uncertainty posed by political risk on such factors is also considered by management. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 6 to the Financial Statements for income tax disclosures, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on the conclusion of indefinite reinvestment, PPL Global has not recorded deferred U.S. federal income taxes associated with the outside book-tax basis difference on its investment in WPD.

Regulatory Assets and Liabilities

(All Registrants)

PPL Electric, LG&E and KU are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. 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.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to the Registrants and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 7 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2020 and 2019, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

(PPL)

WPD's operations are regulated by Ofgem. Ofgem has adopted a price control regulatory framework focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Because the regulatory model is incentive-based, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation and does not record regulatory assets and liabilities. See "General - Regulation" in Note 1 to the Financial Statements for additional information.

Price Risk Management *(PPL)*

See "Financial Condition - Risk Management" above.

Asset Impairment (Excluding Investments)

Goodwill Impairment *(PPL, LKE, LG&E and KU)*

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be primarily at the same level as its reportable segments. LKE, LG&E and KU are individually single operating and reportable segments. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Effective January 1, 2020, the Registrants adopted accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. Under the new guidance, the fair value of a reporting unit will be compared with the carrying value and an impairment charge will be recognized if the carrying amount exceeds the fair value of the reporting unit.

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 quantitative test. See "Long-Lived and Intangible Assets - Asset Impairment (Excluding Investments)" in Note 1 to the Financial Statements for further discussion of goodwill impairment tests. See Note 19 to the Financial Statements for information on goodwill balances at December 31, 2020.

During the three months ended March 31, 2020, PPL, LKE, LG&E and KU considered whether the economic events associated with COVID-19, which resulted in PPL's shares experiencing volatility and a decrease in market value, would more likely than not reduce the fair value of the Registrants' reporting units below their carrying amounts. Based on our assessment, a quantitative impairment test was not required for the LKE, LG&E and KU reporting units, but was required for the U.K. Regulated segment reporting unit, the allocated goodwill of which was $2.5 billion at March 31, 2020. The test did not indicate impairment of the reporting unit.

Management used both discounted cash flows and market multiples, including implied RAV premiums, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows include discount and growth rates, the finalization of RIIO-ED2, and projected operating and capital cash flows. Projected operating and capital cash flows are based on internal business plans, which assume the occurrence of certain future events. Significant assumptions used in the market multiples include sector market performance and comparable transactions.

A high degree of judgment is required to develop estimates related to fair value conclusions. A decrease in the forecasted cash flows of 10%, an increase in the discount rate of 10%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for the U.K. Regulated segment reporting unit as of March 31, 2020.

In the fourth quarter of 2020, PPL, for its U.K. Regulated and Kentucky Regulated segments, and individually for LKE, LG&E and KU, elected to perform qualitative step zero evaluations for their annual goodwill impairment tests as of October 1, 2020. PPL further updated the qualitative step zero evaluation for the U.K. Regulated segment as of December 31, 2020. 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 values. As such, quantitative impairment tests were not performed.

Impairment of Long-lived Assets *(PPL, LKE, LG&E and KU)*

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of the assets, the amount of revenue, the amount of capital and operations and maintenance spending and management's intended use of the assets. Alternate courses of action are considered to recover the carrying amount of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including an assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in materially different results than those identified and recorded in the financial statements.

Initiation of Formal Process to Sell U.K. Utility Business (PPL)

As discussed in Note 9 to the Financial Statements, on August 10, 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. As a result of the potential sale, PPL assessed the recoverability of the assets of its U.K. utility business. PPL prepared probability-weighted undiscounted cash flow estimates as of December 31, 2020 and September 30, 2020 that considered the likelihood of the possible outcomes of the sale process, including the possibility of not selling the U.K. utility business. The resulting cash flow analyses exceeded the carrying value of the assets of the U.K. utility business. A change in the possible outcomes of the sale process could result in the carrying value of the assets of the U.K. utility business not being recoverable, which could result in an impairment in future periods. The recoverability test was performed assuming estimates of selling price, expected forecasted cash flows from the operations of the U.K. utility business (which included significant assumptions made by management to estimate projected operating and capital cash flows, RAV and the finalization of RIIO-ED2) and weighted average probability of sale. A decrease in the expected selling price of 10%, a decrease in the forecasted cash flows from the operations of the U.K. utility business of 10%, or a change in the probability of a sale occurring of 10% would not have resulted in the carrying value of the assets of the U.K. utility business not being recoverable.

Asset Retirement Obligations *(PPL, LKE, LG&E and KU)*

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. Initial obligations are measured at estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the asset's useful life.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars, inflated to the anticipated retirement date and discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. 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 ARO estimate. Any change to the capitalized asset is generally amortized over the remaining life of the associated long-lived asset.

See “Long-Lived and Intangible Assets - Asset Retirement Obligations” in Note 1, Note 7 and Note 20 to the Financial Statements for additional information on AROs.

At December 31, 2020, the total recorded balances and information on the most significant recorded AROs were as follows.

		Most Significant AROs		
	Total ARO Recorded	Amount Recorded	% of Total	Description
PPL	$ 250	$ 147	59	Ponds, landfills and natural gas mains
LKE	182	147	81	Ponds, landfills and natural gas mains
LG&E	67	49	73	Ponds, landfills and natural gas mains
KU	115	98	85	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including settlement dates and the timing of cash flows), discount and inflation rates. At December 31, 2020, a 10% increase to retirement cost would increase these ARO liabilities by $32 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by $3 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by $3 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

Revenue Recognition - Unbilled Revenues *(LKE, LG&E and KU)*

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data, and, where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2020 and 2019.

Other Information *(All Registrants)*

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Regulatory Assets and Liabilities – Impact of Rate-Regulation on Various Account Balances and Disclosures – Refer to Notes 1 and 7 to the Financial Statements

Critical Audit Matter Description

As discussed in Note 1 to the financial statements, PPL Corporation owns and operates three cost-based rate-regulated utilities in the United States (U.S.) for which rates are set by the Federal Energy Regulatory Commission (FERC), the Kentucky Public Service Commission (KPSC), the Virginia State Corporation Commission (VSCC) and the Pennsylvania Public Utility Commission (PUC) to enable the regulated utilities 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 accounting principles generally accepted in the United States of America 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.

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, KPSC, VSCC and PUC. The accounting for the economics of rate regulation also impacts other financial statement line items, including regulated utility plant, operating revenues, depreciation, and income taxes and impacts multiple note disclosures. As of December 31, 2020, PPL Corporation had a recorded regulatory assets balance of $1,361 million and regulatory liabilities balance of $2,609 million.

PPL Corporation's U.S. regulated utilities' rates are subject to cost-based rate-setting processes and annual earnings oversight. Rates are established based on an analysis of the costs incurred and the regulated utility's capital structure and must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital, and the timing and amount of assets to be recovered by rates. The FERC, KPSC, VSCC and PUC regulation of rates is premised on the full recovery of prudently incurred costs and an adequate return on capital investments. Decisions to be made by the FERC, KPSC, VSCC and PUC in the future will impact the accounting for regulated operations, including decisions about the amount of allowable costs and return on invested capital included in rates and any refunds that may be required. While PPL Corporation's U.S. utilities have indicated that they expect to recover costs from customers through regulated rates, there is a risk that the FERC, KPSC, VSCC or PUC will not approve full recovery of such costs or approve recovery on a timely basis in future regulatory decisions.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management in continually assessing whether the regulatory assets are probable of future recovery by considering factors, such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders and the status of any pending legislation. Auditing these judgments required specialized knowledge of accounting for rate regulation and the rate-setting process due to its inherent complexities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the FERC, KPSC, VSCC and PUC included the following, among others:

- We tested the effectiveness of management's internal controls over evaluating the likelihood of recovery in future rates of costs deferred as regulatory assets. We tested the effectiveness of management's controls over the recognition of amounts as regulated utility plant, regulatory assets or liabilities, operating revenues, depreciation expense, income tax expense, and note disclosures. We tested the effectiveness of management's internal controls over the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.

- We obtained and read relevant regulatory orders issued by the FERC, KPSC, VSCC and PUC for PPL Corporation's U.S. regulated utilities and other public utilities, regulatory statutes, interpretations, procedural memorandums, filings made by interveners, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the treatment of similar costs under similar circumstances. We evaluated the external information and compared to management's recorded regulatory asset and liability balances for completeness.

- We inquired of management about regulated utility plant that may be abandoned. We inspected minutes of the Board of Directors, regulatory orders and other filings with the FERC, KPSC, VSCC and PUC to identify any evidence that may contradict management's assertion regarding probability of an abandonment.

- We evaluated PPL Corporation's disclosures related to the impacts of rate-regulation, including the balances recorded and regulatory developments.

Impairment of Long-lived Assets – Recoverability of U.K. Utility Business - Refer to Notes 1 and 9 to the Financial Statements

Critical Audit Matter Description

As discussed in Note 9 to the financial statements, on August 10, 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. As a result of the potential sale, PPL assessed the recoverability of the long-lived assets of the U.K. utility business as of September 30, 2020 and December 31, 2020.

To test recoverability of long-lived assets of the U.K. utility business, PPL Corporation prepared probability-weighted undiscounted cash flow estimates that assumed estimates of selling price, expected forecasted cash flows from the operations of the U.K. utility business (which included significant assumptions made by management to estimate projected operating and capital cash flows, regulatory asset value (RAV) and the finalization of RIIO-ED2) and weighted average probability of sale. The resulting cash flow analyses exceeded the carrying value of the assets of the U.K. utility business.

We identified PPL Corporation's impairment evaluation of long-lived assets of the U.K. utility business as a critical audit matter because of significant judgments made by management to estimate selling price, expected forecasted cash flows from the operations of the U.K. utility business and weighted average probability of sale. The significant judgments and assumptions made by management to estimate probabilities and future cash flows, include management's intended use of the assets, estimates of selling price, RAV, the finalization of RIIO-ED2, and projected operating and capital cash flows. A high degree of auditor judgment and an increased effort was required when performing audit procedures to evaluate the reasonableness of management's estimates and judgments related to each of these assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the significant judgments and assumptions made by management to estimate selling price, expected forecasted cash flows from the operations of the U.K. utility business and weighted average probability of sale included the following, among others:

- We tested the effectiveness of management's internal controls over their long-lived asset recoverability test, including the significant judgments and assumptions made by management in determining management's intended use of the assets, estimates of selling price, RAV, the finalization of RIIO-ED2 and projected operating and capital cash flows.
- We evaluated the reasonableness of management's projected operating and capital cash flows by:
    - Comparing current year forecasts to prior year forecasts to understand if any significant changes occurred and why they are appropriate.
    - Comparing information included in communications to the Board of Directors.
    - Comparing information from the Office of Gas and Electricity Markets (Ofgem), including total expenditures assumptions in RIIO-ED2.
    - Comparing information included in PPL Corporation's press releases as well as in analyst and industry reports for PPL Corporation.
- We evaluated the reasonableness of the RAV by:
    - Comparing information to the Ofgem Price Control Finance Model.
    - Recalculating projected RAV and understanding changes in the RAV for each period.
- We evaluated management's assumptions related to values assigned to each probability-weighted outcome.
- We evaluated estimates of selling price by evaluating sector market performance and comparable market transactions.
- We evaluated the related disclosures for consistency with our understanding.

Goodwill – U.K. Regulated Segment Reporting Unit – Refer to Notes 1 and 19 to the Financial Statements

Critical Audit Matter Description

PPL Corporation's balance sheet includes $3,274 million of goodwill as of December 31, 2020, of which $2,559 million was allocated to the U.K. Regulated segment reporting unit. The fair value of the U.K. Regulated segment reporting unit exceeded the carrying value as of the measurement date and, therefore, no impairment was recognized. PPL Corporation identified a triggering event during the quarter ended March 31, 2020 and performed a quantitative impairment test associated with the U.K. Regulated segment reporting unit. Additionally, PPL Corporation performed its annual impairment test of goodwill as of October 1, 2020 for the U.K. Regulated segment reporting unit and elected to perform a qualitative step zero evaluation. PPL updated the qualitative step zero evaluation for the U.K. Regulated segment reporting unit as of December 31, 2020.

We identified goodwill for the U.K. Regulated segment reporting unit as a critical audit matter because of the significant judgments made by management to estimate the fair value of the U.K. Regulated segment reporting unit. The significant judgments and assumptions made by management to estimate the fair value include RAV premiums, discount and growth rates, projected operating and capital cash flows, market multiples and the evaluation of changes to these assumptions that could affect the fair value of the U.K. Regulated segment reporting unit. A high degree of auditor judgment and an increased effort was required when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the RAV premiums, discount and growth rates, projected operating and capital cash flows and market multiples used by management to estimate the fair value of the U.K. Regulated segment reporting unit and the evaluation of changes to these assumptions and triggering events that could affect the fair value of the U.K. Regulated segment reporting unit included the following, among others:

- We tested the effectiveness of management's internal controls over their goodwill impairment evaluations, including those over the significant assumptions used in management's quantitative impairment test and qualitative step zero evaluations.

- We evaluated the reasonableness of management's projected operating and capital cash flows by:

    - Performing a retrospective review of current year results compared to the projections used in the most recent quantitative impairment test.

    - Comparing current year forecasts to prior year forecasts to understand if any significant changes occurred and why they are appropriate.

    - Comparing information included in communications to the Board of Directors.

    - Comparing information from Ofgem, including total expenditures assumptions in RIIO-ED2.

    - Comparing information included in PPL Corporation's press releases as well as in analyst and industry reports for PPL Corporation.

- We evaluated the reasonableness of the (1) valuation methodology, (2) RAV premiums, (3) discount and growth rates and (4) market multiples by:

    - Evaluating historical data used in developing the assumptions to assess whether the data is comparable and consistent with data of the period under audit.

    - Performing a sensitivity analysis to assess whether there are any changes in the key drivers of the fair value since the prior year.

    - Evaluating sector market performance and comparable market transactions.

- We evaluated the Company's qualitative step zero evaluations, including consideration of macroeconomic factors that could change RAV premiums, discount and growth rates, and projected operating and capital cash flows.

- We evaluated the impact of internal and external factors from the October 1, 2020 annual measurement date to December 31, 2020.

- We evaluated the related disclosures for consistency with our understanding.

Income Taxes – Valuation Allowances – Estimates of future taxable income and management's determination of whether it is more likely than not that deferred tax assets will be realized – Refer to Note 1 and 6 to the Financial Statements

Critical Audit Matter Description

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 and the tax effects of net operating losses and tax credit carryforwards. Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K. PPL Corporation files tax returns in multiple jurisdictions with complex tax laws and regulations. Valuation allowances have been established for the amounts that, more likely than not, will not be realized. PPL Corporation has $906 million of valuation allowances recorded on $1,455 million of deferred tax assets related to federal, state and foreign loss and credit carryforwards as of December 31, 2020.

Management considers a number of factors in assessing the realization of a deferred tax asset associated with net operating losses and tax credit carryforwards, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax-planning strategies. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

We identified management's estimation of the valuation allowances associated with loss and credit carryforwards as a critical audit matter because the need for valuation allowances to reduce deferred tax assets requires significant management judgment. A high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists, was required when performing audit procedures to evaluate the reasonableness of management's estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to estimated future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized included the following, among others:

- We tested the effectiveness of management's internal controls over the valuation allowance for income taxes, including management's internal controls over the estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.

- We evaluated the reasonableness of the methods, assumptions, and judgments used by management to determine whether a valuation allowance was necessary.

- With the assistance of our income tax specialists, we evaluated whether the sources of management's estimated taxable income were of the appropriate character and sufficient to utilize the deferred tax assets under the relevant tax laws.

- We evaluated management's ability to accurately estimate taxable income by comparing actual results to management's historical estimates and evaluating whether there have been any changes that would affect management's ability to continue accurately estimating taxable income.

- We tested the reasonableness of management's estimates of future taxable income by comparing the estimates to:
    - Internal budgets.

- Historical taxable income, as adjusted for nonrecurring items.
  - Internal communications to management and the Board of Directors.
  - Forecasted information included in PPL Corporation’s press releases as well as in analyst and industry reports for PPL Corporation.

- We evaluated the related disclosures for consistency with our understanding.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 18, 2021

We have served as the Company's auditor since 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 18, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 18, 2021

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, PPL Corporation and Subsidiaries

(Millions of Dollars, except share data)

	2020	2019	2018
Operating Revenues	**$ 7,607**	$ 7,769	$ 7,785
Operating Expenses			
Operation			
Fuel	**632**	709	799
Energy purchases	**634**	723	745
Other operation and maintenance	**1,944**	1,985	1,983
Depreciation	**1,287**	1,199	1,094
Taxes, other than income	**307**	313	312
Total Operating Expenses	**4,804**	4,929	4,933
Operating Income	**2,803**	2,840	2,852
Other Income (Expense) - net	**169**	309	396
Interest Expense	**1,001**	994	963
Income Before Income Taxes	**1,971**	2,155	2,285
Income Taxes	**502**	409	458
Net Income	**$ 1,469**	$ 1,746	$ 1,827
Earnings Per Share of Common Stock:			
Net Income Available to PPL Common Shareowners:			
Basic	**$ 1.91**	$ 2.39	$ 2.59
Diluted	**$ 1.91**	$ 2.37	$ 2.58
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	**768,590**	728,512	704,439
Diluted	**769,384**	736,754	708,619

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars)

	2020	2019	2018
Net income	**$ 1,469**	$ 1,746	$ 1,827
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of $0, $0, ($2)	**267**	108	(444)
Qualifying derivatives, net of tax of $5, 2, ($9)	**(19)**	(11)	36
Defined benefit plans:			
Prior service costs, net of tax of $0, $0, $3	**(1)**	(1)	(11)
Net actuarial gain (loss), net of tax of $74, $119, $44	**(341)**	(592)	(187)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of ($8), $(5), $6	**24**	13	(29)
Defined benefit plans:			
Prior service costs, net of tax of ($1), $(1), $0	**3**	2	2
Net actuarial (gain) loss, net of tax of ($51), $(22), ($36)	**205**	87	142
Total other comprehensive income (loss)	**138**	(394)	(491)
Comprehensive income	**$ 1,607**	$ 1,352	$ 1,336

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, PPL Corporation and Subsidiaries

(Millions of Dollars)

	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ **1,469**	$ 1,746	$ 1,827
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**1,287**	1,199	1,094
Amortization	**72**	81	78
Defined benefit plans - (income)	**(201)**	(263)	(192)
Deferred income taxes and investment tax credits	**402**	309	355
Unrealized (gains) losses on derivatives, and other hedging activities	**280**	73	(186)
Stock compensation expense	**29**	36	26
Other	**(12)**	(22)	(3)
Change in current assets and current liabilities			
Accounts receivable	**(82)**	4	28
Accounts payable	**10**	(77)	78
Unbilled revenues	**10**	(5)	41
Fuel, materials and supplies	**(17)**	(26)	17
Regulatory assets and liabilities, net	**(63)**	(88)	13
Other current liabilities	**(23)**	(73)	(22)
Other	**(1)**	(33)	(2)
Other operating activities			
Defined benefit plans - funding	**(390)**	(350)	(361)
Proceeds from transfer of excess benefit plan funds	**—**	—	65
Other assets	**(59)**	(100)	(75)
Other liabilities	**35**	16	40
Net cash provided by operating activities	**2,746**	2,427	2,821
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(3,249)**	(3,083)	(3,238)
Purchase of investments	**—**	(55)	(65)
Proceeds from the sale of investments	**9**	69	6
Other investing activities	**(18)**	(11)	(64)
Net cash used in investing activities	**(3,258)**	(3,080)	(3,361)
Cash Flows from Financing Activities			
Issuance of long-term debt	**2,167**	1,465	1,059
Retirement of long-term debt	**(1,172)**	(300)	(277)
Proceeds from project financing	**173**	—	—
Issuance of common stock	**34**	1,167	698
Payment of common stock dividends	**(1,275)**	(1,192)	(1,133)
Issuance of term loan	**300**	—	—
Issuance of commercial paper	**73**	—	—
Net increase (decrease) in short-term debt	**127**	(278)	363
Other financing activities	**(41)**	(26)	(20)
Net cash provided by financing activities	**386**	836	690
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	**17**	10	(18)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	**(109)**	193	132
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	**836**	643	511
Cash, Cash Equivalents and Restricted Cash at End of Period	$ **727**	$ 836	$ 643
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest - net of amount capitalized	$ **939**	$ 905	$ 910
Income taxes - net	$ **95**	$ 93	$ 127
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	$ **319**	$ 340	$ 345
Accrued expenditures for intangible assets at December 31,	$ **85**	$ 79	$ 64

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ **708**	$ 815
Accounts receivable (less reserve: 2020, $75; 2019, $58)		
Customer	**790**	687
Other	**91**	105
Unbilled revenues	**498**	504
Fuel, materials and supplies	**361**	332
Prepayments	**96**	79
Price risk management assets	**94**	147
Other current assets	**130**	98
Total Current Assets	**2,768**	2,767
Property, Plant and Equipment		
Regulated utility plant	**45,887**	42,709
Less: accumulated depreciation - regulated utility plant	**8,894**	8,055
Regulated utility plant, net	**36,993**	34,654
Non-regulated property, plant and equipment	**498**	357
Less: accumulated depreciation - non-regulated property, plant and equipment	**102**	109
Non-regulated property, plant and equipment, net	**396**	248
Construction work in progress	**1,503**	1,580
Property, Plant and Equipment, net	**38,892**	36,482
Other Noncurrent Assets		
Regulatory assets	**1,262**	1,492
Goodwill	**3,274**	3,198
Other intangibles	**764**	742
Pension benefit asset	**706**	464
Price risk management assets	**52**	149
Other noncurrent assets	**398**	386
Total Other Noncurrent Assets	**6,456**	6,431
Total Assets	$ **48,116**	$ 45,680

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2020	2019
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 1,662**	$ 1,151
Long-term debt due within one year	**1,574**	1,172
Accounts payable	**965**	956
Taxes	**91**	99
Interest	**303**	294
Dividends	**319**	317
Customer deposits	**300**	261
Regulatory liabilities	**79**	115
Other current liabilities	**684**	535
Total Current Liabilities	**5,977**	4,900
Long-term Debt	**21,553**	20,721
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,568**	3,088
Investment tax credits	**122**	124
Accrued pension obligations	**200**	587
Asset retirement obligations	**200**	212
Regulatory liabilities	**2,530**	2,572
Other deferred credits and noncurrent liabilities	**593**	485
Total Deferred Credits and Other Noncurrent Liabilities	**7,213**	7,068
Commitments and Contingent Liabilities (Notes 7 and 14)		
Equity		
Common stock - $0.01 par value (a)	**8**	8
Additional paid-in capital	**12,270**	12,214
Earnings reinvested	**5,315**	5,127
Accumulated other comprehensive loss	**(4,220)**	(4,358)
Total Equity	**13,373**	12,991
Total Liabilities and Equity	**$ 48,116**	$ 45,680

(a) 1,560,000 shares authorized; 768,907 and 767,233 shares issued and outstanding at December 31, 2020 and December 31, 2019.

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners					
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	693,398	$ 7	$ 10,305	$ 3,871	$ (3,422)	$ 10,761
Common stock issued	26,925		718			718
Stock-based compensation			(2)			(2)
Net income				1,827		1,827
Dividends and dividend equivalents (b)				(1,156)		(1,156)
Other comprehensive income (loss)					(491)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment				51	(51)	—
December 31, 2018	720,323	$ 7	$ 11,021	$ 4,593	$ (3,964)	$ 11,657
Common stock issued	46,910	1	1,184			1,185
Stock-based compensation			9			9
Net income				1,746		1,746
Dividends and dividend equivalents (b)				(1,212)		(1,212)
Other comprehensive income (loss)					(394)	(394)
December 31, 2019	767,233	$ 8	$ 12,214	$ 5,127	$ (4,358)	$ 12,991
Common stock issued	1,674		51			51
Stock-based compensation			5			5
Net income				1,469		1,469
Dividends and dividend equivalents (b)				(1,279)		(1,279)
Other comprehensive income (loss)					138	138
Adoption of financial instrument credit losses guidance cumulative effect adjustment (Note 1)				(2)		(2)
December 31, 2020	768,907	$ 8	$ 12,270	$ 5,315	$ (4,220)	$ 13,373

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
(b) Dividends declared per share of common stock at December 31, 2020, 2019 and 2018 were: $1.66, $1.65 and $1.64.

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

COMBINED NOTES TO FINANCIAL STATEMENTS

Index to Combined Notes to Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Summary of Significant Accounting Policies	x	x	x	x	x
2. Segment and Related Information	x	x	x	x	x
3. Revenue from Contracts with Customers	x	x	x	x	x
4. Preferred Securities	x	x		x	x
5. Earnings Per Share	x				
6. Income and Other Taxes	x	x	x	x	x
7. Utility Rate Regulation	x	x	x	x	x
8. Financing Activities	x	x	x	x	x
9. Acquisitions, Development and Divestitures	x				
10. Leases	x	x	x	x	x
11. Stock-Based Compensation	x	x	x		
12. Retirement and Postemployment Benefits	x	x	x	x	x
13. Jointly Owned Facilities	x		x	x	x
14. Commitments and Contingencies	x	x	x	x	x
15. Related Party Transactions		x	x	x	x
16. Other Income (Expense) - net	x	x			
17. Fair Value Measurements	x	x	x	x	x
18. Derivative Instruments and Hedging Activities	x	x	x	x	x
19. Goodwill and Other Intangible Assets	x	x	x	x	x
20. Asset Retirement Obligations	x	x	x	x	x
21. Accumulated Other Comprehensive Income (Loss)	x		x		

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 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.

(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, as a result, are the primary beneficiary of the entity. Amounts consolidated under the VIE guidance are not material to the Registrants. 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 13 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 expected future costs, 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 7 for additional details regarding regulatory matters.

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 uncertain future events and (2) the amount of 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.

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 changes in the fair value of debt instruments and to hedge exposure 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 to 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."

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 contract information as it relates to interest rate and foreign currency derivatives. 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 to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions 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-denominated 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. PPL also hedges anticipated transactions, including the previously announced potential sale of its U.K utility business and net investments.

(All Registrants)

- 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.

(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 17 and 18 for additional information on derivatives.

Revenue

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of each 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 when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled volumes by the price per tariff.

PPL Electric's, LG&E's and KU's base rates are determined based on cost of service. Some regulators have also authorized the use of additional alternative revenue programs, which enable PPL Electric, LG&E and KU to adjust future rates based on past activities or completed events. Revenues from alternative revenue programs are recognized when the specific events permitting future billings have occurred. Revenues from alternative revenue programs are required to be presented separately from revenues from contracts with customers. These amounts are, however, presented as revenues from contracts with customers, with an offsetting adjustment to alternative revenue program revenue, when they are billed to customers in future periods. See Note 3 for additional information.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies 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 increased or reduced 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 and adjustments for over or under-recovery from prior periods.

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 accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is 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 based on 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.

- Annual Iteration Process (AIP) - The RIIO-ED1 price control period also includes an AIP. This allows future base demand revenues agreed with Ofgem as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, 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, 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. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.

- Correction Factor - During the current 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 when billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the period are refunded/recovered on a two year lag.

Financing Receivables

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Financing receivables include accounts receivable, with the exception of those items within accounts receivable that are not subject to the credit loss model.

Current Expected Credit Losses

Financing receivable collectibility 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. The Registrants periodically evaluate the impact of observable external factors on the collectibility of the financing receivables to determine if adjustments to the allowance for doubtful accounts should be made based on current conditions or reasonable and supportable forecasts. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

(PPL and PPL Electric)

PPL Electric has identified one class of financing receivables, “accounts receivable-customer”, which includes financing receivables for all billed and unbilled sales with residential and non-residential customers. All other financing receivables are classified as other. Within the credit loss model for the residential customer accounts receivables, customers are disaggregated based on their projected propensity to pay, which is derived from historical trends and the current activity of the individual customer accounts. Conversely, the non-residential customer accounts receivables are not further segmented due to the varying nature of the individual customers, which lack readily identifiable risk characteristics for disaggregation.

(PPL, LKE, LG&E and KU)

LKE, LG&E and KU have identified one class of financing receivables, "accounts receivable-customer", which includes financing receivables for all billed and unbilled sales with customers. All other financing receivables are classified as other.

(All Registrants)

The changes in the allowance for doubtful accounts are included in the following table. Amounts relate to "accounts receivable-customer" except as noted.

	Balance at Beginning of Period		Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions (b)	Balance at End of Period	
PPL							
2020 (a)	$ 60	(a)	$ 31	$ —	$ 16	$ 75	(c) (d)
2019	56		37	3	38	58	
2018	51		41	3	39	56	
PPL Electric							
2020	$ 30	(a)	$ 19	$ —	$ 8	$ 41	(c)
2019	27		26	—	25	28	
2018	24		29	—	26	27	
LKE							
2020	$ 28		$ 9	$ —	$ 5	$ 32	(d)
2019	27		8	3	10	28	
2018	25		10	3	11	27	
LG&E							
2020	$ 1		$ 4	$ —	$ 2	$ 3	
2019	1		2	2	4	1	
2018	1		4	1	5	1	
KU							
2020	$ 1		$ 4	$ —	$ 3	$ 2	
2019	2		4	1	6	1	
2018	1		5	2	6	2	

(a) Adjusted for $2 million cumulative-effect adjustment upon adoption of current expected credit loss guidance.
(b) Primarily related to uncollectible accounts written off.
(c) Includes $3 million related to other receivables.
(d) Includes $27 million related to other receivables.

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. 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."

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets to the amounts shown on the Statements of Cash Flows:

	PPL		PPL Electric	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 708	$ 815	$ 40	$ 262
Restricted cash - current	1	3	—	2
Restricted cash - noncurrent (a)	18	18	—	—
Total Cash, Cash Equivalents and Restricted Cash	$ 727	$ 836	$ 40	$ 264

(a) 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. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

(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.

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. Included in PP&E are capitalized costs of software projects that were developed or obtained for internal use. 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 work is performed and costs are incurred.

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 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 $9 million in 2020, $10 million in 2019 and $15 million 2018.

(PPL Electric)

PPL Electric capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL Electric was $7 million in 2020, $8 million in 2019 and $7 million in 2018.

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. 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 7 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.

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

	2020	2019	2018
PPL	2.81 %	2.84 %	2.77 %
PPL Electric	2.99 %	3.05 %	3.01 %
LKE	4.00 %	3.96 %	3.69 %
LG&E	4.00 %	3.87 %	3.63 %
KU	4.00 %	4.02 %	3.74 %

(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.

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 primarily 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 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 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, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

In the first quarter of 2020, PPL, LKE, LG&E and KU considered whether the economic events associated with COVID-19, which resulted in PPL's shares experiencing volatility and a decrease in market value, would more likely than not reduce the fair value of the Registrants' reporting units below their carrying amounts. Based on the assessment, a quantitative impairment test was not required for the LKE, LG&E and KU reporting units, but was required for the U.K. Regulated segment reporting unit, the allocated goodwill of which was $2.5 billion at March 31, 2020. The test did not indicate impairment of the reporting unit.

In the fourth quarter of 2020, PPL (for its U.K. Regulated and Kentucky Regulated segments), and individually, LKE, LG&E and KU elected to perform qualitative step zero evaluations for their annual goodwill impairment tests, as of October 1, 2020. 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 values. As such, quantitative impairment tests were not performed.

(*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 certain CCR projects are amortized to expense in accordance with regulatory approvals. 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 7 and Note 20 for additional information on AROs.

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 required amortization period. 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 full required amortization period.

See Note 7 for a discussion of the regulatory treatment of defined benefit costs and Note 12 for a discussion of defined benefits.

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 11 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 on tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

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 the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in its 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%. Unrecognized tax benefits are classified as current to the extent management expects to settle the uncertain tax position by payment or receipt of cash within one year of the reporting date. 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. At December 31, 2020, no significant changes in unrecognized tax benefits were projected over the next 12 months.

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 income tax assets to the amounts that are more-likely-than-not to be realized. The need for valuation allowances requires significant management judgment. 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 amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

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

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

The Registrants use the portfolio approach method of accounting for deferred taxes related to pre-tax OCI transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored. The net change in unrealized gains and losses recorded in AOCI under this approach would be eliminated only on the date the investment portfolio is classified as held for sale or is liquidated.

See Note 6 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

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

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

The income tax provision for PPL Electric, 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, 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:

	2020	2019
PPL Electric	$ (9)	$ 3
LKE	(12)	(8)
LG&E	(1)	(4)
KU	(5)	(6)

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 6 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 10 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 electricity 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 7 for further discussion of the fuel adjustment clauses and gas supply clause.

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

	2020				
	PPL	PPL Electric	LKE	LG&E	KU
Fuel	$ 95	$ —	$ 95	$ 38	$ 57
Natural gas stored underground	30	—	30	30	—
Materials and supplies	236	59	117	51	66
Total	$ 361	$ 59	$ 242	$ 119	$ 123

	2019				
	PPL	PPL Electric	LKE	LG&E	KU
Fuel	$ 106	$ —	$ 106	$ 43	$ 63
Natural gas stored underground	35	—	35	35	—
Materials and supplies	191	33	109	44	65
Total	$ 332	$ 33	$ 250	$ 122	$ 128

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 14 for further discussion of recorded and unrecorded guarantees.

Treasury Stock *(PPL)*

PPL restores 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 16 for additional information.

New Accounting Guidance Adopted

(All Registrants)

Accounting for Financial Instrument Credit Losses

Effective January 1, 2020, the Registrants adopted accounting guidance, using a modified retrospective approach, that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of the guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under previous GAAP. The adoption of this guidance did not have a material impact on the Registrants.

Accounting for Implementation Costs in a Cloud Computing Service Arrangement

Effective January 1, 2020, the Registrants prospectively adopted accounting guidance that requires a customer in a cloud computing hosting arrangement that is a service contract to capitalize implementation costs consistent with internal-use software guidance for non-service arrangements. The guidance requires these capitalized implementation costs to be amortized over the term of the hosting arrangement to the statement of income line item where the service arrangement costs are recorded. The guidance also prescribes the financial statement classification of the capitalized implementation costs and cash flows associated with the arrangement. The adoption of this guidance did not have a material impact on the Registrants.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

Effective January 1, 2020, the Registrants adopted accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test required a calculation of the implied fair value of goodwill, which was determined in the same manner as the amount of goodwill in a business combination. Under the new guidance, the fair value of a reporting unit will be compared with the carrying value and an impairment charge will be recognized if the carrying amount exceeds the fair value of the reporting unit. The adoption of this guidance did not have a material impact on the Registrants

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 conducted by 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, certain other unallocated costs, as well as the financial results of Safari Energy, which is presented to reconcile segment information to PPL's consolidated results.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

		2020		2019		2018
Operating Revenues from external customers (a)						
U.K. Regulated	$	2,133	$	2,167	$	2,268
Kentucky Regulated		3,106		3,206		3,214
Pennsylvania Regulated		2,330		2,358		2,277
Corporate and Other		38		38		26
Total	$	7,607	$	7,769	$	7,785
Depreciation						
U.K. Regulated	$	265	$	250	$	247
Kentucky Regulated		606		547		475
Pennsylvania Regulated		403		386		352
Corporate and Other		13		16		20
Total	$	1,287	$	1,199	$	1,094
Amortization (b)						
U.K. Regulated	$	16	$	25	$	34
Kentucky Regulated		19		27		18
Pennsylvania Regulated		26		24		22
Corporate and Other		11		5		4
Total	$	72	$	81	$	78
Unrealized (gains) losses on derivatives and other hedging activities (c)						
U.K. Regulated	$	271	$	62	$	(190)
Kentucky Regulated		5		6		6
Corporate and Other		4		5		(2)
Total	$	280	$	73	$	(186)
Interest Expense						
U.K. Regulated	$	400	$	405	$	413
Kentucky Regulated		300		298		274
Pennsylvania Regulated		172		169		159
Corporate and Other		129		122		117
Total	$	1,001	$	994	$	963
Income Before Income Taxes						
U.K. Regulated	$	958	$	1,169	$	1,339
Kentucky Regulated		516		530		531
Pennsylvania Regulated		664		607		567
Corporate and Other		(167)		(151)		(152)
Total	$	1,971	$	2,155	$	2,285
Income Taxes (d)						
U.K. Regulated	$	272	$	192	$	225
Kentucky Regulated		98		94		120
Pennsylvania Regulated		167		149		136
Corporate and Other		(35)		(26)		(23)
Total	$	502	$	409	$	458
Deferred income taxes and investment tax credits (e)						
U.K. Regulated	$	233	$	140	$	118
Kentucky Regulated		64		82		94
Pennsylvania Regulated		82		90		125
Corporate and Other		23		(3)		18
Total	$	402	$	309	$	355

	2020	2019	2018
Net Income			
U.K. Regulated	$ 686	$ 977	$ 1,114
Kentucky Regulated	418	436	411
Pennsylvania Regulated	497	458	431
Corporate and Other	(132)	(125)	(129)
Total	$ 1,469	$ 1,746	$ 1,827

(a) See Note 1 and Note 3 for additional information on Operating Revenues.
(b) Represents non-cash expense items that include amortization of operating lease right-of-use assets, regulatory assets, debt discounts and premiums and debt issuance costs.
(c) Includes unrealized gains and losses from economic activity. See Note 18 for additional information.
(d) Represents both current and deferred income taxes, including investment tax credits. See Note 6 for additional information on the impact of the TCJA in 2018.
(e) Represents a non-cash expense item that is also included in "Income Taxes."

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2020	2019	2018
Expenditures for long-lived assets			
U.K. Regulated	$ 995	$ 857	$ 954
Kentucky Regulated	966	1,097	1,117
Pennsylvania Regulated	1,154	1,121	1,196
Corporate and Other	158	32	1
Total	$ 3,273	$ 3,107	$ 3,268

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	As of December 31,	
	2020	2019
Total Assets		
U.K. Regulated (a)	$ 19,094	$ 17,622
Kentucky Regulated	15,943	15,597
Pennsylvania Regulated	12,347	11,918
Corporate and Other (b)	732	543
Total	$ 48,116	$ 45,680

(a) Includes $14.4 billion and $13.2 billion of net PP&E as of December 31, 2020 and December 31, 2019. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.
(b) Primarily consists of unallocated items, including cash, PP&E, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.

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

	2020	2019	2018
Revenues from external customers			
U.K.	$ 2,133	$ 2,167	$ 2,268
U.S.	5,474	5,602	5,517
Total	$ 7,607	$ 7,769	$ 7,785

	As of December 31,	
	2020	2019
Long-Lived Assets		
U.K.	$ 14,805	$ 13,618
U.S.	24,851	23,607
Total	$ 39,656	$ 37,225

(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. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

(PPL)

U.K. Regulated Segment Revenue

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD's DUoS contracts.

(PPL and PPL Electric)

Pennsylvania Regulated Segment Revenue

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by the price per tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the price per tariff and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are normally due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric's retail account contracts.

Transmission Revenue

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

(PPL, LKE, LG&E and KU)

Kentucky Regulated Segment Revenue

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the years ended December 31:

	2020				
	PPL	**PPL Electric**	**LKE**	**LG&E**	**KU**
Operating Revenues (a)	$ 7,607	$ 2,331	$ 3,106	$ 1,456	$ 1,690
Revenues derived from:					
Alternative revenue programs (b)	(24)	(12)	(12)	(8)	(4)
Other (c)	(27)	(3)	(17)	(7)	(10)
Revenues from Contracts with Customers	$ 7,556	$ 2,316	$ 3,077	$ 1,441	$ 1,676

	2019				
	PPL	**PPL Electric**	**LKE**	**LG&E**	**KU**
Operating Revenues (a)	$ 7,769	$ 2,358	$ 3,206	$ 1,500	$ 1,740
Revenues derived from:					
Alternative revenue programs (b)	(30)	(6)	(24)	(10)	(14)
Other (c)	(38)	(10)	(21)	(9)	(12)
Revenues from Contracts with Customers	$ 7,701	$ 2,342	$ 3,161	$ 1,481	$ 1,714

	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	$ 7,785	$ 2,277	$ 3,214	$ 1,496	$ 1,760
Revenues derived from:					
Alternative revenue programs (b)	32	(6)	38	12	26
Other (c)	(38)	(12)	(17)	(5)	(12)
Revenues from Contracts with Customers	$ 7,779	$ 2,259	$ 3,235	$ 1,503	$ 1,774

(a) For the years ended December 31, 2020 and 2019, PPL includes $2.1 billion and $2.2 billion of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 2 for additional information.

(b) Alternative revenue programs include the transmission formula rate for PPL Electric, the ECR and DSM programs for LG&E and KU, the GLT program for LG&E, and the generation formula rate for KU. This line item shows the over/under collection of these rate mechanisms with over-collections of revenue shown as positive amounts in the table above and under-collections shown as negative amounts.

(c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2020				
	PPL (d)	PPL Electric (d)	LKE	LG&E	KU
Licensed energy suppliers (a)	$ 1,990	$ —	$ —	$ —	$ —
Residential	2,585	1,238	1,347	676	671
Commercial	1,185	314	871	444	427
Industrial	582	44	538	173	365
Other (b)	484	50	261	114	147
Wholesale - municipal	20	—	20	—	20
Wholesale - other (c)	40	—	40	34	46
Transmission	670	670	—	—	—
Revenues from Contracts with Customers	$ 7,556	$ 2,316	$ 3,077	$ 1,441	$ 1,676

	2019				
	PPL (d)	PPL Electric (d)	LKE	LG&E	KU
Licensed energy suppliers (a)	$ 2,032	$ —	$ —	$ —	$ —
Residential	2,610	1,288	1,322	668	654
Commercial	1,257	349	908	466	442
Industrial	621	59	562	180	382
Other (b)	495	52	277	121	156
Wholesale - municipal	43	—	43	—	43
Wholesale - other (c)	49	—	49	46	37
Transmission	594	594	—	—	—
Revenues from Contracts with Customers	$ 7,701	$ 2,342	$ 3,161	$ 1,481	$ 1,714

	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	$ 2,127	$ —	$ —	$ —	$ —
Residential	2,704	1,379	1,325	666	659
Commercial	1,233	368	865	455	410
Industrial	624	54	570	180	390
Other (b)	489	53	278	129	149
Wholesale - municipal	118	—	118	—	118
Wholesale - other (c)	79	—	79	73	48
Transmission	405	405	—	—	—
Revenues from Contracts with Customers	$ 7,779	$ 2,259	$ 3,235	$ 1,503	$ 1,774

(a) Represents customers of WPD.
(b) Primarily includes revenues from pole attachments, street lighting, other public authorities and other non-core businesses.
(c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.
(d) In 2020 and 2019, management deemed it appropriate to present the revenue offset associated with network integration transmission service (NITS) as distribution revenue rather than transmission revenue.

As discussed in Note 2, PPL segments its business by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the footnotes to the tables above. PPL Electric's revenues from contracts with customers are further disaggregated by distribution and transmission as indicated in the above tables.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable and unbilled revenues balances that were impaired for the year ended December 31:

	2020	2019	2018
PPL	$ 29	$ 27	$ 34
PPL Electric	17	21	24
LKE	8	6	9
LG&E	4	2	4
KU	4	4	5

The following table shows the balances and certain activity of contract liabilities resulting from contracts with customers:

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2020	$ 48	$ 23	$ 11	$ 5	$ 6
Contract liabilities as of December 31, 2019	44	21	9	5	4
Revenue recognized during the year ended December 31, 2020 that was included in the contract liability balance at December 31, 2019	29	9	9	5	4
Contract liabilities as of December 31, 2019	$ 44	$ 21	$ 9	$ 5	$ 4
Contract liabilities as of December 31, 2018	42	23	9	5	4
Revenue recognized during the year ended December 31, 2019 that was included in the contract liability balance at December 31, 2018	32	11	9	5	4
Contract liabilities as of December 31, 2018	$ 42	$ 23	$ 9	$ 5	$ 4
Contract liabilities as of December 31, 2017	29	19	8	4	4
Revenue recognized during the year ended December 31, 2018 that was included in the contract liability balance at December 31, 2017	21	8	8	4	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as services are delivered in subsequent periods.

At December 31, 2020, PPL had $46 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately $46 million within the next 12 months.

4. 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 2020, 2019 or 2018.

(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 2020, 2019 or 2018.

(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 2020, 2019 or 2018.

(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 2020, 2019 or 2018.

5. 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. Incremental non-participating securities that have a dilutive impact are detailed in the table below. In 2019 and 2018, these securities also included the PPL common stock forward sale agreements, which were partially settled in 2018 with the remaining shares settled in 2019. The forward sale agreements were dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeded the forward sale price prescribed in the agreements.

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:

	2020	2019	2018
Income (Numerator)			
Net income	$ 1,469	$ 1,746	$ 1,827
Less amounts allocated to participating securities	1	1	2
Net income available to PPL common shareowners - Basic and Diluted	$ 1,468	$ 1,745	$ 1,825
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	768,590	728,512	704,439
Add incremental non-participating securities:			
Share-based payment awards (a)	794	1,101	445
Forward sale agreements	—	7,141	3,735
Weighted-average shares - Diluted EPS	769,384	736,754	708,619
Basic EPS			
Net Income available to PPL common shareowners	$ 1.91	$ 2.39	$ 2.59
Diluted EPS			
Net Income available to PPL common shareowners	$ 1.91	$ 2.37	$ 2.58

(a) 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):

	2020
Stock-based compensation plans (a)	731
DRIP	943

(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 8 for additional information on common stock issued under the 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:

	2020	2019	2018
Stock-based compensation awards	452	8	183

6. Income and Other Taxes

(PPL)

"Income Before Income Taxes" included the following:

	2020	2019	2018
Domestic income	$ 902	$ 964	$ 1,127
Foreign income	1,069	1,191	1,158
Total	$ 1,971	$ 2,155	$ 2,285

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 7 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:

	2020	2019
Deferred Tax Assets		
Deferred investment tax credits	$ 30	$ 31
Regulatory liabilities	68	75
Income taxes due to customers	444	462
Accrued pension and postretirement costs	106	211
Federal loss carryforwards	234	324
State loss carryforwards	448	432
Federal and state tax credit carryforwards	401	402
Foreign capital loss carryforwards	370	320
Foreign - other	6	8
Contributions in aid of construction	115	112
Domestic - other	136	99
Valuation allowances	(906)	(834)
Total deferred tax assets	1,452	1,642
Deferred Tax Liabilities		
Domestic plant - net	3,700	3,546
Regulatory assets	195	262
Foreign plant - net	911	765
Foreign - pensions	127	72
Domestic - other	70	61
Total deferred tax liabilities	5,003	4,706
Net deferred tax liability	$ 3,551	$ 3,064

State deferred taxes are determined by entity and by jurisdiction. As a result, $17 million and $24 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2020 and 2019.

At December 31, 2020, 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 and other carryforwards				
Federal net operating losses	$ 1,111	$ 234	$ —	2035-2037
State net operating losses	6,032	448	(419)	2021-2040
Foreign capital losses (a)	1,945	370	(370)	Indefinite
Federal - Other	13	2	—	Indefinite
State - Other	2	—	—	Indefinite
Credit carryforwards				
Federal investment tax credit		134	—	2025-2040
Federal foreign tax credits (b)		218	(113)	2024-2027
Federal - other		32	(4)	2021-2040
State Recycling Credit		16	—	2028
State - other		1	—	Indefinite

(a) In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction from 19% to 17%. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.
(b) Includes $62 million of foreign tax credits carried forward from 2016 and $156 million of additional foreign tax credits from 2017 related to the taxable deemed dividend associated with the TCJA.

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:

	Balance at Beginning of Period	Additions: Charged to Income		Additions: Charged to Other Accounts	Deductions		Balance at End of Period
2020	$ 834	$ 69	(a)	$ 7	$ 4		$ 906
2019	808	31		—	5		834
2018	838	26		—	56	(b)	808

(a) The cancellation of the reduction of the U.K. statutory income tax rate in 2020 resulted in a $38 million increase in deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for additional information on the impact of the U.K. Finance Act 2020. In addition, deferred tax assets and corresponding valuation allowances were increased in 2020 by approximately $11 million due to the effect of foreign currency exchange rates.

(b) Decrease in the valuation allowance of approximately $35 million due to the change in the total foreign tax credits available after finalization of the deemed dividend calculation required by the TCJA in 2017. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2018 by approximately $19 million due to the effect of foreign currency exchange rates.

A U.S. based company with foreign subsidiaries may be required to record deferred taxes associated with the reversal of differences in the outside book-tax basis of those subsidiaries. The primary component of such outside basis differences is ordinarily accumulated unremitted earnings. PPL Global does not record deferred U.S. income taxes associated with the accumulated unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year’s earnings of the WPD group. There have been no material changes to the facts underlying PPL’s assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. 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 some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2020 was $8.0 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., but it could be material. PPL will reassess the indefinite reinvestment of these earnings if and when the U.K. utility business meets the criteria to be classified as held for sale.

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:

	2020	2019	2018
Income Tax Expense (Benefit)			
Current - Federal	$ (9)	$ (10)	$ (19)
Current - State	24	19	17
Current - Foreign	85	91	104
Total Current Expense (Benefit)	100	100	102
Deferred - Federal	123	139	203
Deferred - State	94	76	100
Deferred - Foreign (a)	215	123	107
Total Deferred Expense (Benefit), excluding operating loss carryforwards	432	338	410
Amortization of investment tax credit	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	6	7	(20)
Deferred - State	(33)	(33)	(31)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(27)	(26)	(51)
Total income tax expense (benefit)	$ 502	$ 409	$ 458
Total income tax expense (benefit) - Federal	$ 117	$ 133	$ 161
Total income tax expense (benefit) - State	85	62	86
Total income tax expense (benefit) - Foreign	300	214	211
Total income tax expense (benefit)	$ 502	$ 409	$ 458

(a) In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction from 19% to 17%. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.

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

	2020	2019	2018
Other comprehensive income	$ (19)	$ (93)	$ (6)
Total	$ (19)	$ (93)	$ (6)

	2020	2019	2018
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 414	$ 453	$ 480
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	48	45	40
Valuation allowance adjustments (a)	26	22	21
Impact of lower U.K. income tax rates	(26)	(25)	(25)
U.S. income tax on foreign earnings - net of foreign tax credit	11	2	3
Federal and state income tax return adjustments	(9)	1	—
Impact of the U.K. Finance Acts on deferred tax balances (b)	101	(14)	(13)
Depreciation and other items not normalized	(5)	(10)	(11)
Amortization of excess deferred federal and state income taxes	(43)	(40)	(37)
Interest benefit on U.K. financing activities	(12)	(12)	(17)
Deferred tax impact of Kentucky tax reform (c)	—	—	9
Kentucky recycling credit, net of federal income tax expense (d)	—	(18)	—
Other	(3)	5	8
Total increase (decrease)	88	(44)	(22)
Total income tax expense (benefit)	$ 502	$ 409	$ 458
Effective income tax rate	25.5%	19.0%	20.0%

(a) In 2020, 2019 and 2018, PPL recorded deferred income tax expense of $24 million, $25 million and $24 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(b) In 2018 and 2019, PPL reduced its net deferred tax liabilities as a result of the U.K. Finance Act 2016 that was enacted in September 2016 and reduced the U.K. statutory income tax rate effective April, 2020 to 17%. In 2020, the U.K. Finance Act 2020 cancelled the tax rate reduction to 17%. The primary impact of the cancellation of the corporation tax rate reduction was an increase in deferred tax liabilities and a corresponding deferred tax expense of $106 million.

(c) In 2018, PPL recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(d) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

	2020	2019	2018
Taxes, other than income			
State gross receipts	$ 100	$ 107	$ 103
Foreign property	127	127	134
Domestic - other	80	79	75
Total	$ 307	$ 313	$ 312

(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 "Regulatory liabilities" on the Balance Sheets.

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

	2020	2019
Deferred Tax Assets		
Accrued pension and postretirement costs	$ 25	$ 81
Contributions in aid of construction	91	88
Regulatory liabilities	24	31
Income taxes due to customers	162	170
State loss carryforwards	—	6
Federal loss carryforwards	52	78
Other	29	23
Total deferred tax assets	383	477
Deferred Tax Liabilities		
Electric utility plant - net	1,826	1,761
Regulatory assets	86	139
Other	30	24
Total deferred tax liabilities	1,942	1,924
Net deferred tax liability	$ 1,559	$ 1,447

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

At December 31, 2020, PPL Electric had the following loss and tax credit carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards			
Federal net operating losses	$ 248	$ 52	2035-2037
Credit carryforwards			
Federal - other		5	2031-2040

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:

	2020	2019	2018
Income Tax Expense (Benefit)			
Current - Federal	$ 61	$ 44	$ 2
Current - State	23	15	9
Total Current Expense (Benefit)	84	59	11
Deferred - Federal	45	51	96
Deferred - State	38	39	37
Total Deferred Expense (Benefit), excluding operating loss carryforwards	83	90	133
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	—	(8)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	—	(8)
Total income tax expense (benefit)	$ 167	$ 149	$ 136
Total income tax expense (benefit) - Federal	$ 106	$ 95	$ 90
Total income tax expense (benefit) - State	61	54	46
Total income tax expense (benefit)	$ 167	$ 149	$ 136

	2020	2019	2018
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 139	$ 127	$ 119
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	52	47	43
Federal and state income tax return adjustments	(4)	1	—
Depreciation and other items not normalized	(5)	(10)	(11)
Amortization of excess deferred federal income taxes (a)	(16)	(18)	(17)
Other	1	2	2
Total increase (decrease)	28	22	17
Total income tax expense (benefit)	$ 167	$ 149	$ 136
Effective income tax rate	25.2%	24.6%	24.0%

(a) In 2020, 2019 and 2018, PPL Electric recorded lower income tax expense for the amortization of excess deferred taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.

	2020	2019	2018
Taxes, other than income			
State gross receipts	$ 100	$ 107	$ 103
Property and other	7	5	6
Total	$ 107	$ 112	$ 109

(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.

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

	2020	2019
Deferred Tax Assets		
Federal loss carryforwards	$ 107	$ 140
State loss carryforwards	28	31
Federal tax credit carryforwards	159	162
Contributions in aid of construction	23	23
Regulatory liabilities	43	44
Accrued pension and postretirement costs	57	71
State tax credit carryforwards	17	19
Income taxes due to customers	282	292
Deferred investment tax credits	30	31
Lease liabilities	13	14
Valuation allowances	(4)	(6)
Other	29	28
Total deferred tax assets	784	849
Deferred Tax Liabilities		
Plant - net	1,831	1,778
Regulatory assets	109	122
Lease right-of-use assets	11	12
Other	8	6
Total deferred tax liabilities	1,959	1,918
Net deferred tax liability	$ 1,175	$ 1,069

At December 31, 2020, 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	$ 511	$ 107	$ —	2035 - 2037
Federal charitable contributions	1	—	—	2024
State net operating losses	710	28	—	2029 - 2038

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Credit carryforwards				
Federal investment tax credit		134	—	2025 - 2028, 2036 - 2040
Federal - other		25	(4)	2021-2040
State - recycling credit		16	—	2028
State - other		1	—	Indefinite

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions		Balance at End of Period
2020	$ 6	$ —	$ 2	(a)	$ 4
2019	8	3	5	(a)	6
2018	8	—	—		8

(a) Tax credits expiring.

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:

	2020	2019	2018
Income Tax Expense (Benefit)			
Current - Federal	$ 41	$ 20	$ 31
Current - State	1	—	4
Total Current Expense (Benefit)	42	20	35
Deferred - Federal	43	81	65
Deferred - State (a)	24	5	34
Total Deferred Expense (Benefit), excluding benefits of operating loss carryforwards	67	86	99
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	—	(2)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	—	(2)
Total income tax expense (benefit) (b)	$ 106	$ 103	$ 129
Total income tax expense (benefit) - Federal	$ 81	$ 98	$ 91
Total income tax expense (benefit) - State	25	5	38
Total income tax expense (benefit) (b)	$ 106	$ 103	$ 129

(a) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.
(b) Excludes deferred federal and state tax expense (benefit) recorded to OCI of $2 million in 2020, $(1) million in 2019 and $5 million in 2018.

	2020	2019	2018
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 117	$ 120	$ 121
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	22	23	22
Amortization of investment tax credit	(3)	(3)	(3)
Amortization of excess deferred federal and state income taxes	(28)	(23)	(20)
Deferred tax impact of state tax reform (a)	—	—	9
Kentucky Recycling Credit, net of federal income tax expense (b)	—	(18)	—
Other	(2)	4	—
Total increase (decrease)	(11)	(17)	8
Total income tax expense (benefit)	$ 106	$ 103	$ 129
Effective income tax rate	19.1%	18.0%	22.5%

(a) In 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
(b) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

	2020	2019	2018
Taxes, other than income			
Property and other	$ 77	$ 74	$ 70
Total	$ 77	$ 74	$ 70

(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.

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

	2020	2019
Deferred Tax Assets		
Contributions in aid of construction	$ 15	$ 15
Regulatory liabilities	20	19
Accrued pension and postretirement costs	—	6
Deferred investment tax credits	8	8
Income taxes due to customers	132	136
State tax credit carryforwards	12	14
Lease liabilities	5	5
Valuation allowances	(12)	(14)
Other	11	10
Total deferred tax assets	191	199
Deferred Tax Liabilities		
Plant - net	833	811
Regulatory assets	66	77
Lease right-of-use assets	4	4
Other	4	4
Total deferred tax liabilities	907	896
Net deferred tax liability	$ 716	$ 697

At December 31, 2020 LG&E had $12 million of state credit carryforwards that expire in 2028 and a $12 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

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:

	2020	2019	2018
Income Tax Expense (Benefit)			
Current - Federal	$ 53	$ 4	$ —
Current - State	7	4	4
Total Current Expense (Benefit)	60	8	4
Deferred - Federal	(4)	46	51
Deferred - State	7	10	10
Total Deferred Expense (Benefit)	3	56	61
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Total income tax expense (benefit)	$ 62	$ 63	$ 64
Total income tax expense (benefit) - Federal	$ 48	$ 49	$ 50
Total income tax expense (benefit) - State	14	14	14
Total income tax expense (benefit)	$ 62	$ 63	$ 64

	2020	2019	2018
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 64	$ 62	$ 62
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	12	11
Amortization of excess deferred federal and state income taxes	(11)	(10)	(8)
Kentucky recycling credit, net of federal income tax expense (a)	—	(14)	—
Valuation allowance adjustments (a)	—	14	—
Other	(3)	(1)	(1)
Total increase (decrease)	(2)	1	2
Total income tax expense (benefit)	$ 62	$ 63	$ 64
Effective income tax rate	20.3%	21.4%	21.5%

(a) In 2019, LG&E recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at LG&E.

	2020	2019	2018
Taxes, other than income			
Property and other	$ 40	$ 39	$ 36
Total	$ 40	$ 39	$ 36

(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:

	2020	2019
Deferred Tax Assets		
Contributions in aid of construction	$ 8	$ 8
Regulatory liabilities	23	25
Deferred investment tax credits	22	23
Income taxes due to customers	150	156
State tax credit carryforwards	5	5
Lease liabilities	8	8
Valuation allowances	(4)	(4)
Other	4	3
Total deferred tax assets	216	224
Deferred Tax Liabilities		
Plant - net	992	959
Regulatory assets	43	45
Accrued pension and postretirement costs	8	2
Lease right-of-use assets	7	7
Other	1	3
Total deferred tax liabilities	1,051	1,016
Net deferred tax liability	$ 835	$ 792

At December 31, 2020 KU had $5 million of state credit carryforwards of which $4 million will expire in 2028 and $1 million that has an indefinite carryforward period. At December 31, 2020 KU had a $4 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

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:

	2020	2019	2018
Income Tax Expense (Benefit)			
Current - Federal	$ 40	$ 35	$ 22
Current - State	3	5	6
Total Current Expense (Benefit)	43	40	28
Deferred - Federal	11	28	40
Deferred - State	11	13	10
Total Deferred Expense (Benefit)	22	41	50
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Total income tax expense (benefit)	$ 63	$ 79	$ 76
Total income tax expense (benefit) - Federal	$ 49	$ 61	$ 60
Total income tax expense (benefit) - State	14	18	16
Total income tax expense (benefit)	$ 63	$ 79	$ 76

	2020	2019	2018
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 72	$ 78	$ 76
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	14	15	13
Amortization of investment tax credit	(2)	(2)	(2)
Amortization of excess deferred federal and state income taxes	(17)	(13)	(12)
Kentucky recycling credit, net of federal income tax expense (a)	—	(4)	—
Valuation allowance adjustments (a)	—	4	—
Other	(4)	1	1
Total increase (decrease)	(9)	1	—
Total income tax expense (benefit)	$ 63	$ 79	$ 76
Effective income tax rate	18.4%	21.2%	21.0%

(a) In 2019, KU recorded a deferred income tax benefit associated with a project placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at KU.

	2020	2019	2018
Taxes, other than income			
Property and other	$ 37	$ 35	$ 34
Total	$ 37	$ 35	$ 34

(All Registrants)

Unrecognized Tax Benefits

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, 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. 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, 2020, 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)	2016 and prior	2016 and prior	2016 and prior	2016 and prior	2016 and prior
Pennsylvania (state)	2016 and prior	2016 and prior			
Kentucky (state)	2014 and prior		2014 and prior	2014 and prior	2014 and prior
U.K. (foreign)	2016 and prior				

Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, the TCJA was signed into law. Substantially all of the provisions of the TCJA were effective for taxable years beginning after December 31, 2017. The TCJA included significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants were:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities for capital projects commencing after December 31, 2017 that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

2018 Impacts of TCJA

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017; (2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts was required. The final amounts reported in PPL's 2017 federal income tax return, provisional amounts for the year ended December 31, 2017, the related measurement period adjustments, and the resulting tax impact for the year ended December 31, 2018 were as follows.

	Taxable Income (Loss) (a)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	$ 397	$ 462	$ (65)
Bonus Depreciation (b)	(67)	—	(67)
Consolidated Federal Net Operating Loss due to the TCJA (c)	(330)	(462)	132
Total	$ —	$ —	$ —
PPL Electric			
Bonus Depreciation (b)	$ (39)	$ —	$ (39)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	$ (107)	$ (105)	$ (2)
LKE			
Bonus Depreciation (b)	$ (28)	$ —	$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	$ (60)	$ (45)	$ (15)
LG&E			
Bonus Depreciation (b)	$ (17)	$ —	$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	$ —	$ —	$ —
KU			
Bonus Depreciation (b)	$ (11)	$ —	$ (11)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	11	—	11
Total	$ —	$ —	$ —

(a) The above table reflects, for each item, the amount subject to change as a result of the TCJA and does not reflect the total amount of each item included in the return and the provision.

(b) The TCJA increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2018. Increases in tax depreciation reduce the Registrants' taxes payable and increase net deferred tax liabilities with no impact to "Income Taxes" on the Statements of Income.

(c) An increase in the consolidated federal net operating loss reduces net deferred tax liabilities with the opposite effect if there is a decrease in the consolidated federal net operating loss. These increases or decreases have no impact to "Income Taxes" on the Statements of Income.

	Income Tax Expense (Benefit)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	$ 139	$ 161	$ (22)
Foreign Tax Credits	(157)	(205)	48
Valuation of Foreign Tax Credit Carryforward	110	145	(35)
Reduction in U.S. federal income tax rate	229	220	9
Total	$ 321	$ 321	$ —
PPL Electric			
Reduction in U.S. federal income tax rate	$ (13)	$ (13)	$ —
LKE			
Reduction in U.S. federal income tax rate	$ 110	$ 112	$ (2)

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 was complete as of December 31, 2018 with respect to all provisional amounts.

TCJA Regulatory Update

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). In 2019, final and new proposed regulations were issued relating to the GILTI provisions. PPL has determined that neither the final or new proposed regulations materially change PPL's conclusion that currently no incremental tax arises under these rules. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations did not apply to the Registrants in 2019.

In July 2020, the IRS issued final and new proposed regulations relating to the limitation on interest deductibility. The final regulations do not apply to the Registrants until the 2021 tax year. The new proposed regulations were finalized on January 5, 2021 and will apply to the Registrants in the 2022 tax year. The Registrants are evaluating the final regulations issued in 2021, but do not expect these regulations or the 2020 final regulations to have a material impact on the Registrants’ financial condition or results of operations.

7. 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 an item will be recovered or refunded within a year of the balance sheet date.

(PPL)

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.

(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 accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except for regulatory assets and liabilities related to the levelized fuel factor, pension and postretirement benefits, and AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, 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.

(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	
	2020	2019	2020	2019
Current Regulatory Assets:				
Plant outage costs	$ 46	$ 32	$ —	$ —
Gas supply clause	4	8	—	—
Smart meter rider	17	13	17	13
Storm costs	7	—	7	—
Transmission formula rate	15	3	15	3
Transmission service charge	—	10	—	10
Other	10	1	1	—
Total current regulatory assets (a)	$ 99	$ 67	$ 40	$ 26
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 570	$ 800	$ 290	$ 467
Storm costs	17	39	—	15
Unamortized loss on debt	30	41	8	18
Interest rate swaps	23	22	—	—
Terminated interest rate swaps	75	81	—	—
Accumulated cost of removal of utility plant	240	220	240	220
AROs	300	279	—	—
Act 129 compliance rider	—	6	—	6
Other	7	4	3	—
Total noncurrent regulatory assets	$ 1,262	$ 1,492	$ 541	$ 726

	PPL		PPL Electric	
	2020	2019	2020	2019
Current Regulatory Liabilities:				
Generation supply charge	$ 21	$ 23	$ 21	$ 23
Environmental cost recovery	4	5	—	—
Universal service rider	22	9	22	9
Fuel adjustment clause	5	8	—	—
TCJA customer refund	11	61	11	59
Storm damage expense rider	6	5	6	5
Act 129 compliance rider	7	—	7	—
Other	3	4	1	—
Total current regulatory liabilities	$ 79	$ 115	$ 68	$ 96
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 653	$ 640	$ —	$ —
Power purchase agreement - OVEC	43	51	—	—
Net deferred taxes	1,690	1,756	560	588
Defined benefit plans	60	51	18	11
Terminated interest rate swaps	66	68	—	—
Other	18	6	—	—
Total noncurrent regulatory liabilities	$ 2,530	$ 2,572	$ 578	$ 599

	LKE		LG&E		KU	
	2020	2019	2020	2019	2020	2019
Current Regulatory Assets:						
Plant outage costs	$ 46	$ 32	$ 12	$ 16	$ 34	$ 16
Gas supply clause	4	8	4	8	—	—
Other	9	1	7	1	2	—
Total current regulatory assets	$ 59	$ 41	$ 23	$ 25	$ 36	$ 16
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 280	$ 333	$ 174	$ 206	$ 106	$ 127
Storm costs	17	24	11	14	6	10
Unamortized loss on debt	22	23	13	14	9	9
Interest rate swaps	23	22	23	22	—	—
Terminated interest rate swaps	75	81	44	47	31	34
AROs	300	279	85	76	215	203
Other	4	4	1	1	3	3
Total noncurrent regulatory assets	$ 721	$ 766	$ 351	$ 380	$ 370	$ 386

	LKE		LG&E		KU	
	2020	2019	2020	2019	2020	2019
Current Regulatory Liabilities:						
Environmental cost recovery	$ 4	$ 5	$ —	$ 1	$ 4	$ 4
Fuel adjustment clauses	5	8	—	—	5	8
Other	2	6	—	1	2	5
Total current regulatory liabilities	$ 11	$ 19	$ —	$ 2	$ 11	$ 17
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 653	$ 640	$ 274	$ 266	$ 379	$ 374
Power purchase agreement - OVEC	43	51	30	35	13	16
Net deferred taxes	1,130	1,168	528	544	602	624
Defined benefit plans	42	40	—	—	42	40
Terminated interest rate swaps	66	68	33	34	33	34
Other	18	6	17	4	1	2
Total noncurrent regulatory liabilities	$ 1,952	$ 1,973	$ 882	$ 883	$ 1,070	$ 1,090

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

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 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 remeasured.

(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, 2020, the balances were $79 million for PPL and LKE, $44 million for LG&E and $35 million for KU. As of December 31, 2019, the balances were $51 million for PPL and LKE, $29 million for LG&E and $22 million for KU.

(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 regulatory assets for storm costs are being amortized through 2021. LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2029.

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 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.

Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017.

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, as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior periods 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 $20 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 $20 million recovered annually through base rates. Storm costs incurred in PPL Electric's territory from a March 2018 storm are being amortized through 2021.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric is currently in Phase III of the energy efficiency and conservation plan which was approved in June 2016. Phase III allows PPL Electric to recover the maximum $313 million over the 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 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.

Smart Meter Rider (SMR)

Act 129 requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). As of December 31, 2019, PPL Electric replaced substantially all of its old meters with meters that meet the Act 129 requirements under its SMP. In accordance with Act 129, EDCs are able to recover the costs and earn a return on capital of providing smart metering technology. PPL Electric uses the SMR to recover the costs to implement its SMP. The SMR is 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.

TCJA Customer Refund

As a result of the reduced U.S federal corporate income tax rate as enacted by the TCJA, the PUC ruled that these tax benefits should be refunded to customers. Timing differences between the recognition of these tax benefits and the refund of the benefit to the customer creates a regulatory liability.

PPL Electric's liability related to the period of July 1, 2018 through December 31, 2020 is being credited back to distribution customers through a negative surcharge. The liability related to the period of January 1, 2018 through June 30, 2018 was $43 million and was credited back to customers over the period of January 1, 2020 through December 31, 2020 utilizing the same negative surcharge mechanism referred to above, as approved by the PUC in November 2019.

(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. The KPSC has authorized returns on equity of 9.2% and 9.725% for existing approved ECR projects. 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 or refunded 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 formal reviews 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, may conduct public hearings and 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 and load for the fuel year (12 months ending March 31). The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the fuel year plus an adjustment for any under- or over-recovery of fuel expenses from the prior fuel 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 or refunded within 12 months.

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 certain CCR projects are amortized to expense in accordance with regulatory approvals. 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.

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. LG&E's and KU's customer rates continue to reflect the original contracts. See Notes 14 and 19 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities 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.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate 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 are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

Plant Outage Costs

Since July 1, 2017, plant outage costs in Kentucky have been normalized for ratemaking purposes based on an average level of expenses. Plant outage expenses that are greater or less than the average are collected from or returned to customers, through future base rates. Effective May 1, 2019 plant outage costs are normalized based on a five-year average of historical expenses with over or under recoveries collected or returned over an eight-year period.

Gas Supply Clause *(PPL, LKE and LG&E)*

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). LG&E currently has a proceeding pending with the KPSC in which LG&E proposed renewal of and modification to its natural gas procurement incentive mechanism, which is currently approved through September 1, 2021. LG&E cannot predict the outcome of this proceeding. 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 or refunded within 18 months.

Generation Formula Rate *(PPL, LKE and KU)*

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect each July utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset or liability represents the difference between the revenue requirement in effect for the current year and actual expenditures incurred for the current year. Amounts are included in other current regulatory assets for 2020 and other current regulatory liabilities for 2019 in the table above.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

Rate Case Proceedings

On November 25, 2020, LG&E and KU filed requests with the KPSC for an increase in annual electricity and gas revenues of approximately $331 million ($131 million and $170 million in electricity revenues at LG&E and KU and $30 million in gas revenues at LG&E). The revenue increases would be an increase of 11.6% and 10.4% in electricity revenues at LG&E and KU, and an increase of 8.3% in gas revenues at LG&E. LG&E and KU are also requesting approval of a one-year billing credit which will credit customers approximately $53 million ($41 million at LG&E and $12 million at KU). The billing credit represents the return to customers of certain regulatory liabilities on LG&E’s and KU’s balance sheets and serves to partially mitigate the rate increases during the first year in which the new rates are in effect.

LG&E’s and KU’s applications also include a request for a CPCN to deploy Advanced Metering Infrastructure across LG&E’s and KU’s service territories in Kentucky.

The applications are based on a forecasted test year of July 1, 2021 through June 30, 2022 and request an authorized return on equity of 10.0%. Subject to KPSC approval, the requested rates, decreased by the amount of the billing credit, are expected to become effective July 1, 2021. Certain counterparties have intervened in the proceedings. Data discovery and the filing of written testimony will continue through April 2021 and a hearing is expected to occur during the second quarter of 2021. PPL, LKE, LG&E and KU cannot predict the outcome of these proceedings.

ECR Filings

On March 31, 2020, LG&E and KU submitted applications to the KPSC for ECR rate treatment regarding upcoming environmental construction projects relating to the EPA's regulations addressing ELGs. The construction projects are expected to begin in 2021 and continue through 2024 and are estimated to cost approximately $405 million ($153 million at LG&E and $252 million at KU). The applications requested an authorized 9.725% return on equity with respect to these projects consistent with the authorized return on equity approved for the 2018 Kentucky rate cases in April 2019. On September 29, 2020, the KPSC issued orders approving the ECR applications, permitting an authorized return on equity of 9.2% for the applicable projects.

Pennsylvania Activities *(PPL and PPL Electric)*

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. PPL Electric filed with the PUC its Act 129 Phase IV Energy Efficiency and Conservation Plan on November 30, 2020, for the five-year period starting June 1, 2021 and ending on May 31, 2026. Hearings were held February 8, 2021. This proceeding remains pending before the PUC. PPL Electric cannot predict the outcome of this proceeding.

Act 129 also requires EDCs to act as a default service provider (DSP), which provides electricity generation supply service to customers pursuant to a PUC-approved default service procurement plan. A DSP is able to recover the costs associated with its default service procurement plan.

In March 2020, PPL Electric filed a Petition for Approval of a new default service program and procurement plan with the PUC for the period June 1, 2021 through May 31, 2025. Hearings were held in August 2020. PPL Electric received a Recommended Decision from the Administrative Law Judge on October 13, 2020. Several parties filed Exceptions and Reply Exceptions on October 26, 2020 and November 2, 2020, respectively. On December 17, 2020, the PUC issued a final Order approving the partial settlement reached by parties, including the PPL Electric default service plan for the period of June 2021 through May 2025, and ruling on the issues reserved for litigation. This matter is not expected to have a significant impact on the financial condition of PPL Electric.

Federal Matters

Challenge to PPL Electric Transmission Formula Rate Return on Equity

(PPL and PPL Electric)

On May 21, 2020, PP&L Industrial Customer Alliance (PPLICA) filed a complaint with the FERC alleging that PPL Electric's base return on equity (ROE) of 11.18% used to determine PPL Electric's formula transmission rate is unjust and unreasonable, and proposing an alternative ROE of 8.00% based on its interpretation of FERC Opinion No. 569. However, also on May 21, 2020, the FERC issued Opinion No. 569-A in response to numerous requests for rehearing of Opinion No. 569, which revised the method for analyzing base ROE. On June 10, 2020, PPLICA filed a Motion to Supplement the May 21, 2020 complaint in which PPLICA continued to allege that PPL Electric’s base ROE is unjust and unreasonable, but revised its analysis of PPL Electric's base ROE to reflect the guidance provided in Opinion No. 569-A. The amended complaint proposed an updated alternative ROE of 8.50% and also requested that the FERC preserve the original refund effective date as established by the filing of the original complaint on May 21, 2020. Several parties have filed motions to intervene, including one party who filed Comments in Support of the original complaint.

On July 10, 2020, PPL Electric filed its Answer and supporting Testimony to the PPLICA filings arguing that the FERC should deny the original and amended complaints as they are without merit and fail to demonstrate the existing base ROE is unjust and unreasonable. In addition, PPL Electric contended any refund effective date should be set for no earlier than June 10, 2020 and PPLICA's proposed replacement ROE should be rejected.

On October 15, 2020, the FERC issued an order on the PPLICA complaints which established hearing and settlement procedures, set a refund effective date of May 21, 2020 and granted the motions to intervene. On November 16, 2020, PPL Electric filed a request for rehearing of the portion of the October 15, 2020 Order that set the May 21, 2020 refund effective date. On December 17, 2020, the FERC issued a Notice of Denial of Rehearing by Operation of Law and Providing for Further Consideration. On February 16, 2021, PPL Electric filed a Petition for Review with the United States Court of Appeals for the District of Columbia Circuit of the portion of the October 15, 2020 Order that set the May 21, 2020 refund effective date.

PPL Electric continues to believe its ROE is just and reasonable and that it has meritorious defenses against the original and amended complaints. At this time, PPL Electric cannot predict the outcome of this matter or the range of possible losses, if any, that may be incurred. However, revenue earned from May 21, 2020 through the settlement of this matter may be subject to refund. A change of 50 basis points to the base ROE would impact PPL Electric's net income by approximately $12 million on an annual basis.

(PPL, LKE, LG&E and KU)

FERC Transmission Rate Filing

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application sought termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. In March 2019, the FERC granted LG&E's and KU's request to remove the ongoing credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, subject to FERC review and approval. In July 2019, LG&E and KU proposed their transition mechanism to the FERC and in September 2019, the FERC rejected the proposed transition mechanism and issued a separate order providing clarifications of certain aspects of the March order. In October 2019, LG&E and KU filed requests for rehearing and clarification on the two September orders. In September 2020, the FERC issued its orders in the rehearing process that modified the discussion in, and set aside portions of, the September 2019 orders including adjusting factors impacting the proposed transition mechanism. In October 2020, both LG&E and KU and other parties filed separate motions for rehearing and clarification regarding FERC’s September 2020 orders. In November 2020, the FERC denied the parties’ rehearing requests. In November 2020 and January 2021, LG&E and KU and other parties filed for appeal of the September 2020 and November 2020 orders with the D.C. Circuit Court of Appeals, where certain additional prior petitions for review relating to the proceedings are also pending. On January 15, 2021, LG&E and KU made a filing seeking FERC acceptance of a new proposal for a transition mechanism. LG&E and KU cannot predict the outcome of these proceedings. LG&E and KU currently receive recovery of the waivers and credits provided through other rate mechanisms.

(All Registrants)

TCJA Impact on FERC Rates

In November 2019, the FERC published Final Rules providing that public utility transmission providers include mechanisms in their formula rates to deduct excess ADIT from, or add deficient ADIT to, rate base and adjust their income tax allowances by amortized excess or deficient ADIT, and to make a related compliance filing.

In February 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the FERC Rules and Regulations. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient ADIT resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. In April 2019, the FERC accepted the proposed revisions to the formula rate template, which were effective June 1, 2019, as well as the proposed adjustments to ADIT, effective January 1, 2018.

In February 2019, in connection with the requirements of the TCJA and Kentucky HB 487, LG&E and KU filed a request with the FERC to amend their transmission formula rates resulting from the laws’ reductions to corporate income tax rates. The FERC approved this request effective June 1, 2019. In 2020, LG&E and KU submitted a compliance filing addressing excess and deficient ADIT. LG&E and KU do not anticipate the impact of the TCJA and Kentucky HB 487 related to their FERC-jurisdictional rates to be significant.

Other

Purchase of Receivables Program

(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 2020, 2019 and 2018, PPL Electric purchased $1.1 billion, $1.2 billion and $1.3 billion of accounts receivable from alternative suppliers.

8. 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 listed in the borrowed column below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under PPL Capital Funding's term loan agreement due March 2022, which are reflected in "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

	December 31, 2020					December 31, 2019	
	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) (b) (c)	Jan. 2023	£ 210	£ 187	£ —	£ 23	£ 155	£ —
WPD (South West)							
Syndicated Credit Facility (a) (b) (c)	May 2023	220	50	—	170	40	—
WPD (South Wales)							
Syndicated Credit Facility (a) (b) (c)	May 2023	125	—	—	125	—	—
WPD (East Midlands)							
Syndicated Credit Facility (a) (b) (c)	May 2023	250	—	—	250	—	—
WPD (West Midlands)							
Syndicated Credit Facility (a) (b) (c)	May 2023	250	74	—	176	48	—
Uncommitted Credit Facilities		100	60	4	36	—	4
Total U.K. Credit Facilities (b)		£ 1,155	£ 371	£ 4	£ 780	£ 243	£ 4
U.S.							
PPL Capital Funding							
Syndicated Credit Facility (c) (d)	Jan 2024	1,450	—	402	1,048	—	450
Term Loan Credit Facility (c) (d)	Mar 2021	200	200	—	—	—	—
Bilateral Credit Facility (c) (d)	Mar 2021	50	—	—	50	—	—
Bilateral Credit Facility (c) (d)	Mar 2021	50	—	15	35	—	15
Term Loan Credit Facility (c) (d)	Mar 2021	100	100	—	—	—	—
Term Loan Credit Facility (c) (d)	Mar 2022	100	100	—	—	—	—
Total PPL Capital Funding Credit Facilities		$ 1,950	$ 400	$ 417	$ 1,133	$ —	$ 465

		December 31, 2020				December 31, 2019	
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
PPL Electric							
Syndicated Credit Facility (c) (d)	Jan 2024	$ 650	$ —	$ 1	$ 649	$ —	$ 1
LG&E							
Syndicated Credit Facility (c) (d)	Jan 2024	$ 500	$ —	$ 262	$ 238	$ —	$ 238
Total LG&E Credit Facilities		$ 500	$ —	$ 262	$ 238	$ —	$ 238
KU							
Syndicated Credit Facility (c) (d)	Jan 2024	$ 400	$ —	$ 203	$ 197	$ —	$ 150
Total KU Credit Facilities		$ 400	$ —	$ 203	$ 197	$ —	$ 150

(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, 2020 and 2019 included USD-denominated borrowings of $249 million and $200 million, which bore interest at weighted average rate of 0.95% and 2.52%. The WPD (South West) amounts borrowed at December 31, 2020 and 2019 were GBP-denominated borrowings, which equated to $67 million and $51 million and bore interest at 0.54% and 1.09%. The WPD (West Midlands) amounts borrowed at December 31, 2020 and 2019 were GBP-denominated borrowings, which equated to $99 million and $62 million and bore interest at 0.54% and 1.11%. The interest rates on the borrowings are equal to one-month USD LIBOR plus a margin. At December 31, 2020, the unused capacity under the U.K. credit facilities was approximately $1.0 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, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, subject to certain conditions, PPL Capital Funding may request that the capacity of its bilateral credit facility expiring in March 2021 be increased by up to $30 million and PPL Capital Funding, PPL Electric, LG&E and KU may each request up to a $250 million increase in its syndicated credit facility's capacity.

(PPL)

In March 2020, PPL Capital Funding entered into a $200 million term loan credit facility expiring in March 2021 and borrowed the full principal amount under the facility at an initial interest rate of 1.96%. The applicable interest rate on borrowings fluctuates periodically and is based on LIBOR plus a spread. The proceeds were used to repay short-term debt and for general corporate purposes.

In April 2020, PPL Capital Funding entered into a $100 million term loan credit facility expiring in March 2021 and borrowed the full principal amount under the facility at an initial interest rate of 1.73%. The applicable interest rate on borrowings fluctuates periodically and is based on LIBOR plus a spread. The proceeds were used to repay short-term debt and for general corporate purposes.

PPL has guaranteed PPL Capital Funding's obligations under these credit agreements.

(All Registrants)

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

	December 31, 2020				December 31, 2019	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	0.25%	$ 1,500	$ 402	$ 1,098	2.13%	$ 450
PPL Electric		650	—	650		—
LG&E	0.28%	350	262	88	2.07%	238
KU	0.28%	350	203	147	2.02%	150
Total		$ 2,850	$ 867	$ 1,983		$ 838

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

See Note 15 for a discussion of intercompany borrowings.

Long-term Debt *(All Registrants)*

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2020	December 31, 2019
PPL				
U.S.				
Senior Unsecured Notes	3.95 %	2021 - 2047	$ 4,850	$ 4,325
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.81 %	2021 - 2050	8,955	8,705
Junior Subordinated Notes	4.35 %	2067 - 2073	930	930
Term Loan Credit Facility	0.85 %	2022	100	—
Total U.S. Long-term Debt			14,835	13,960
U.K.				
Senior Unsecured Notes (d)	4.69 %	2021 - 2040	7,197	6,874
Index-linked Senior Unsecured Notes (e)	1.42 %	2028 - 2056	1,150	1,104
Term Loan Credit Facility	1.46 %	2024	67	64
Total U.K. Long-term Debt (f)			8,414	8,042
Total Long-term Debt Before Adjustments			23,249	22,002
Fair market value adjustments			8	12
Unamortized premium and (discount), net			2	5
Unamortized debt issuance costs			(132)	(126)
Total Long-term Debt			23,127	21,893
Less current portion of Long-term Debt			1,574	1,172
Total Long-term Debt, noncurrent			$ 21,553	$ 20,721
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	3.79 %	2021 - 2049	$ 4,289	$ 4,039
Total Long-term Debt Before Adjustments			4,289	4,039
Unamortized discount			(23)	(24)
Unamortized debt issuance costs			(30)	(30)
Total Long-term Debt			4,236	3,985
Less current portion of Long-term Debt			400	—
Total Long-term Debt, noncurrent			$ 3,836	$ 3,985
LKE				
Senior Unsecured Notes	4.38 %	2021	$ 250	$ 725
First Mortgage Bonds (a) (c)	3.82 %	2023 - 2050	4,666	4,666
Long-term debt to affiliate	3.89 %	2026 - 2030	1,200	650
Total Long-term Debt Before Adjustments			6,116	6,041
Unamortized premium			5	5
Unamortized discount			(13)	(12)
Unamortized debt issuance costs			(34)	(32)
Total Long-term Debt			6,074	6,002
Less current portion of Long-term Debt			674	975
Total Long-term Debt, noncurrent			$ 5,400	$ 5,027
LG&E				
First Mortgage Bonds (a) (c)	3.69 %	2025 - 2049	$ 2,024	$ 2,024
Total Long-term Debt Before Adjustments			2,024	2,024

	Weighted-Average Rate (g)	Maturities (g)	December 31, 2020	December 31, 2019
Unamortized discount			(4)	(4)
Unamortized debt issuance costs			(13)	(15)
Total Long-term Debt			2,007	2,005
Less current portion of Long-term Debt			292	—
Total Long-term Debt, noncurrent			$ 1,715	$ 2,005
KU				
First Mortgage Bonds (a) (c)	3.92 %	2023 - 2050	$ 2,642	$ 2,642
Total Long-term Debt Before Adjustments			2,642	2,642
Unamortized premium			5	5
Unamortized discount			(9)	(8)
Unamortized debt issuance costs			(20)	(16)
Total Long-term Debt			2,618	2,623
Less current portion of Long-term Debt			132	500
Total Long-term Debt, noncurrent			$ 2,486	$ 2,123

(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 of PPL Electric’s tangible distribution properties and certain of its tangible transmission properties located in Pennsylvania, subject to certain exceptions and exclusions. The carrying value of PPL Electric's property, plant and equipment was approximately $10.8 billion and $10.1 billion at December 31, 2020 and 2019.

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 $5.5 billion and $5.3 billion at December 31, 2020 and 2019.

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 $6.7 billion and $6.6 billion at December 31, 2020 and 2019.

(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 which is 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.

Includes $250 million of notes that may be called on or after September 28, 2021, at a redemption price equal to 100% of the principal amount of the bonds, plus accrued and unpaid interest to, but excluding, such redemption date.

(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, 2020, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $848 million for LKE, comprised of $539 million and $309 million for LG&E and KU respectively. At December 31, 2020, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $33 million for LKE and KU respectively. These variable rate tax-exempt revenue bonds 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 ($300 million at December 31, 2020) 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), WPD (East Midlands) and WPD (South Wales) 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 2019 to 2020 was an increase of approximately £10 million ($13 million) resulting from inflation. In addition, this amount includes £331 million ($441 million at December 31, 2020) 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 £5.8 billion ($7.7 billion at December 31, 2020) 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, 2020.

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 2021 through 2025 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2021	$ 1,574	$ 400	$ 674	$ 292	$ 132
2022	1,374	474	—	—	—
2023	2,552	340	13	—	13
2024	950	—	—	—	—
2025	883	—	550	300	250
Thereafter	15,916	3,075	4,879	1,432	2,247
Total	$ 23,249	$ 4,289	$ 6,116	$ 2,024	$ 2,642

(PPL)

In April 2020, PPL Capital Funding entered into a $100 million term loan credit facility expiring in March 2022 and borrowed the full principal amount under the facility at an initial interest rate of 1.72%. The applicable interest rate on borrowings fluctuates periodically and is based on LIBOR plus a spread. The proceeds were used to repay short-term debt and for general corporate purposes.

In April 2020, PPL Capital Funding issued $1 billion of 4.125% Senior Notes due 2030. PPL Capital Funding received proceeds of $993 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

PPL has guaranteed PPL Capital Funding's obligations under the credit agreement and notes.

In October 2020, WPD (South Wales) issued £250 million of 1.625% Senior Notes due 2035. WPD (South Wales) received proceeds of £247 million which equated to $319 million at the time of issuance, net of fees and a discount. The proceeds were used to repay the £150 million of 9.25% Notes due in November 2020 and for general corporate purposes.

In January 2021, WPD issued a notice to redeem its $500 million of 5.375% Notes due May 2021 on March 1, 2021.

(PPL and PPL Electric)

In October 2020, PPL Electric issued $250 million of First Mortgage Bonds, Floating Rate Series due 2023. PPL Electric received proceeds of $249 million, net of discounts and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

In October 2020, the Pennsylvania Economic Development Financing Authority (PEDFA) remarketed $90 million of Pollution Control Revenue Refunding Bonds, Series 2008 (PPL Electric Utilities Corporation Project) due 2023, previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 0.40% through their maturity date of October 1, 2023.

(PPL and LKE)

In August 2020, LKE redeemed $475 million of 3.75% senior notes due November 2020.

(PPL, LKE and LG&E)

In September 2020, the County of Trimble, Kentucky remarketed $125 million of Pollution Control Revenue Refunding Bonds, 2016 Series A due 2044 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.30% through their mandatory purchase date of September 1, 2027.

In September 2020, the Louisville/Jefferson County Metro Government of Kentucky remarketed $23 million of Pollution Control Revenue Bonds, 2001 Series A due 2026 on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 0.90% through their maturity date of September 1, 2026.

(PPL, LKE and KU)

In June 2020, KU issued $500 million of 3.30% First Mortgage Bonds due 2050. KU received proceeds of $493 million, net of discounts and underwriting fees, which were initially used to repay short-term debt and for other general corporate purpose, pending application to the redemption of KU's 3.25% First Mortgage Bonds in August 2020.

In August 2020, KU redeemed $500 million of 3.25% First Mortgage Bonds due November 2020.

See Note 15 for additional information related to intercompany borrowings.

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 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)

Equity Securities

ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of $1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the twelve months ended December 31, 2020 and 2019. The ATM program expires in February 2021.

Distributions and Related Restrictions

In November 2020, PPL declared its quarterly common stock dividend, payable January 4, 2021, at 41.50 cents per share (equivalent to $1.66 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.

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, 2020, 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 PPL's 2010 acquisition of LKE. 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, 2020, net assets of $3 billion ($1.3 billion for LG&E and $1.7 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of $3.7 billion ($1.7 billion for LG&E and $2.0 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.

9. Acquisitions, Development and Divestitures

(PPL)

On August 10, 2020, PPL announced that it initiated a formal process to sell its U.K. utility business. PPL noted that there can be no assurance of any specific outcome, including whether the sale process will result in the completion of any potential transaction, the timing or terms thereof, the value or benefits that may be realized or the effect that any potential transaction will have on future financial results.

As a result of the potential sale, PPL assessed the recoverability of the assets of its U.K. utility business. PPL prepared probability-weighted undiscounted cash flow estimates as of December 31, 2020 and September 30, 2020 that considered the likelihood of the possible outcomes of the sale process, including the possibility of not selling the U.K. utility business. The resulting cash flow analyses exceeded the carrying value of the assets of the U.K. utility business. A change in the possible outcomes of the sale process could result in the carrying value of the assets of the U.K. utility business not being recoverable, which could result in an impairment in future periods. The U.K. utility business will continue to be classified as held and used until it meets the criteria to be classified as held for sale, which includes management obtaining a commitment to a plan to sell from its Board of Directors.

Should the U.K. utility business meet the criteria to be classified as held for sale in a future period, PPL will be required at that time to compare the estimated fair value of its investment in the U.K. utility business, less costs to sell, to its carrying value, including accumulated other comprehensive losses related to the U.K. utility business, for impairment purposes. The resulting measurement may result in a loss. In addition, PPL will reassess its assertion of the indefinite reinvestment of the unremitted earnings of the U.K. utility business. See Note 21 for additional information on accumulated other comprehensive income and losses. See Note 6 for additional information on income taxes.

10. Leases

(All Registrants)

The Registrants determine whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether the Registrants have the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether the Registrants have the right to direct the use of the asset. Renewal options are included in the lease term if it is reasonably certain the Registrants will exercise those options. Periods for which the Registrants are reasonably certain not to exercise termination options are also included in the lease term. The Registrants have certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

LKE, LG&E and KU have entered into various operating leases primarily for office space, vehicles and railcars. The leases generally have fixed payments with expiration dates ranging from 2021 to 2025, some of which have options to extend the leases from one year to ten years and some have options to terminate at LKE's, LG&E's and KU's discretion.

PPL has also entered into various operating leases primarily for office space, land easements, telecom assets and warehouse space. These leases generally have fixed payments with expiration dates ranging from 2020 through 2029, except for the land agreements which extend through 2116.

PPL Electric also has operating leases which do not have a significant impact to its operations.

Short-term Leases

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option or option to extend the initial term of the lease to greater than 12 months that the Registrants are reasonably certain to exercise. The Registrants have made an accounting policy election to not recognize the ROU asset and the lease liability arising from leases classified as short-term. Expenses related to short-term leases are included in the tables below.

Discount Rate

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Registrants are required to use their incremental borrowing rate, which is the rate the Registrants would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Registrants receive secured borrowing rates from financial institutions based on their applicable credit profiles. The Registrants use the secured rate which corresponds with the term of the applicable lease.

(PPL, LKE, LG&E and KU)

Lessee Transactions

The following table provides the components of lease cost for the Registrants' operating leases for the years ended December 31:

	2020			
	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	$ 30	$ 22	$ 8	$ 13
Short-term lease cost	9	2	1	1
Total lease cost	$ 39	$ 24	$ 9	$ 14

	2019			
	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	$ 33	$ 25	$ 12	$ 13
Short-term lease cost	7	2	1	1
Total lease cost	$ 40	$ 27	$ 13	$ 14

The following table provides other key information related to the Registrants' operating leases at December 31:

	2020			
	PPL	LKE	LG&E	KU
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 26	$ 18	$ 7	$ 11
Right-of-use asset obtained in exchange for new operating lease liabilities	17	16	6	9

	2019			
	PPL	LKE	LG&E	KU
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 29	$ 21	$ 9	$ 11
Right-of-use asset obtained in exchange for new operating lease liabilities	46	16	5	11

The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of December 31, 2020.

	PPL	LKE	LG&E	KU
2021	$ 27	$ 17	$ 6	$ 10
2022	22	13	5	8
2023	18	10	4	6
2024	15	8	3	4
2025	8	6	3	3
Thereafter	20	3	1	2
Total	$ 110	$ 57	$ 22	$ 33
Weighted-average discount rate	3.35%	3.66%	3.53%	3.68%
Weighted-average remaining lease term (in years)	8	4	4	4
Current lease liabilities (a)	$ 24	$ 16	$ 6	$ 9
Non-current lease liabilities (a)	70	37	15	21
Right-of-use assets (b)	87	46	17	27

(a) Current lease liabilities are included in "Other Current Liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets. The difference between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.

(b) Right-of-use assets are included in "Other noncurrent assets" on the Balance Sheets.

Lessor Transactions

Third parties lease land from LKE, LG&E and KU at certain generation plants to produce refined coal used to generate electricity. The leases are operating leases and expire in 2021. Payments are allocated among lease and non-lease components as stated in the agreements. Lease payments are fixed or are determined based on the amount of refined coal used in electricity generation at the facility. Payments received are primarily recorded as a regulatory liability and are amortized in accordance with regulatory approvals.

WPD leases property and telecom assets to third parties, which generally expire through 2029. These leases are operating leases. Generally, lease payments are fixed and include only a lease component.

The following table shows the fixed lease payments that PPL, LKE, LG&E and KU expect to receive over the remaining term of their operating lease agreements for the years ended December 31:

	2020			
	PPL	LKE	LG&E	KU
2021	$ 11	$ 5	$ —	$ 5
2022	6	—	—	—
2023	6	1	—	—
2024	5	—	—	—
2025	4	—	—	—
Thereafter	12	—	—	—
Total	$ 44	$ 6	$ —	$ 5
Lease income recognized for the twelve months ended December 31, 2020	$ 21	$ 15	$ 6	$ 9
Lease income recognized for the twelve months ended December 31, 2019	21	13	5	8

11. 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 Committee 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)	Annual Grant Limit For Individual Participants - Performance Based Awards: For awards denominated in cash (in dollars)
SIP	15,000,000		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, the rights of the participant terminate, or, with respect to certain awards, is forfeited, and 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 Units

Restricted stock units represent the right to receive shares of PPL common stock in the future, generally three years after the date of grant, in an amount based on the fair value of PPL common stock on the date of grant.

Under the SIP, each restricted stock unit entitles the grant recipient 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 ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the restriction period or through the date at which the employee reaches retirement eligibility. The fair value of 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 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 units fully, in certain situations, as defined by each of the Plans.

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

	2020	2019	2018
PPL	$ 35.30	$ 31.95	$ 30.58
PPL Electric	35.37	32.33	30.00
LKE	35.31	30.65	30.98

Restricted stock unit activity for 2020 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,137,685	$ 32.76
Granted	331,160	35.30
Vested	(562,848)	34.57
Forfeited	(9,661)	32.97
Nonvested, end of period	896,336	32.56
PPL Electric		
Nonvested, beginning of period	229,860	$ 32.61
Transfer between registrants	(1,197)	32.23
Granted	65,356	35.37
Vested	(79,313)	34.55
Forfeited	(3,986)	32.65
Nonvested, end of period	210,720	32.73
LKE		
Nonvested, beginning of period	166,445	$ 32.09
Transfer between registrants	(1,598)	30.57
Granted	50,402	35.31
Vested	(60,571)	34.88
Forfeited	(1,550)	30.36
Nonvested, end of period	153,128	32.08

Substantially all restricted stock unit awards are expected to vest.

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

	2020	2019	2018
PPL	$ 19	$ 13	$ 16
PPL Electric	3	2	2
LKE	2	1	5

Performance Units - Total Shareowner Return

Performance units based on relative Total Shareowner Return (TSR) 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 TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR 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 year's 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 Compensation Committee's determination of achievement of the performance goals. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment other than retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR 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. 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:

	2020	2019	2018
Expected stock volatility	15.64%	17.57%	17.60%
Expected life	3 years	3 years	3 years

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

	2020	2019	2018
PPL	$ 37.63	$ 35.83	$ 38.26
PPL Electric	38.64	35.68	38.37
LKE	37.73	35.93	38.32

TSR performance unit activity for 2020 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	739,392	$ 37.50
Granted	261,891	37.63
Forfeited (a)	(375,029)	38.46
Nonvested, end of period	626,254	36.98
PPL Electric		
Nonvested, beginning of period	66,799	$ 37.43
Granted	21,416	38.64
Forfeited (a)	(26,408)	38.37
Nonvested, end of period	61,807	37.44
LKE		
Nonvested, beginning of period	130,533	$ 37.60
Granted	35,538	37.73
Forfeited (a)	(66,459)	38.23
Nonvested, end of period	99,612	37.23

(a) Primarily related to the forfeiture of 2017 performance units as performance during the period was below the minimum established performance threshold, which resulted in no payout.

There were no TSR performance units vesting for the years ended December 31, 2020 and 2019. The total fair value of TSR performance units vesting for the year ended December 31, 2018 was $3 million for PPL. Amounts for PPL Electric and LKE are insignificant.

Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE 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 ROE performance goal. ROE performance units 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 Compensation Committee's determination of achievement of the performance goals. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment other than retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units 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 awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

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

	2020	2019	2018
PPL	$ 34.95	$ 30.89	$ 32.21
PPL Electric	35.59	30.76	32.32
LKE	34.81	30.99	32.28

ROE performance unit activity for 2020 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	570,765	$ 32.02
Granted	374,878	34.95
Vested	(216,979)	34.42
Nonvested, end of period	728,664	32.81
PPL Electric		
Nonvested, beginning of period	49,194	$ 31.92
Granted	30,426	35.59
Vested	(17,813)	34.41
Nonvested, end of period	61,807	33.01
LKE		
Nonvested, beginning of period	107,805	$ 32.20
Granted	60,286	34.81
Vested	(46,384)	34.29
Nonvested, end of period	121,707	32.70

The total fair value of ROE performance units vesting for the years ended December 31 was:

	2020
PPL	$ 8
PPL Electric	1
LKE	2

Stock Options

PPL's Compensation, Governance and Nominating Committee, now known as the Compensation Committee, eliminated the use of stock options due to changes in its long-term incentive mix 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, 2020, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2020 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	1,330,943	$ 26.20		
Exercised	(227,927)	26.10		
Outstanding and exercisable at end of period	1,103,016	26.22	1.7	$ 2

For 2020, 2019 and 2018, PPL received $8 million, $53 million and $5 million in cash from stock options exercised. The total intrinsic value of stock options exercised was insignificant in 2020 and 2018 and $11 million in 2019. The related income tax benefits realized were not significant.

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:

	2020	2019	2018
PPL	$ 28	$ 35	$ 25
PPL Electric	10	12	10
LKE	11	9	8

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

	2020	2019	2018
PPL	$ 8	$ 10	$ 10
PPL Electric	3	3	3
LKE	3	2	2

At December 31, 2020, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 16	1.7
PPL Electric	3	1.8
LKE	1	1.4

12. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

Certain employees of PPL's domestic subsidiaries 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. The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan. The merged plan is sponsored by LKE. LG&E and KU participate in this plan.

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.

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

Certain 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 Pension 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 (credits) 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		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Net periodic defined benefit costs (credits):									
Service cost	$ 56	$ 50	$ 62	$ 89	$ 68	$ 82	$ 6	$ 6	$ 7
Interest cost	146	164	156	143	187	185	19	22	21
Expected return on plan assets	(246)	(245)	(249)	(622)	(588)	(587)	(21)	(18)	(23)
Amortization of:									
Prior service cost (credit)	9	8	10	1	1	—	1	(1)	(1)
Actuarial (gain) loss	89	56	84	213	92	151	—	1	—
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	54	33	63	(176)	(240)	(169)	5	10	4
Settlements (a)	23	1	—	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	$ 77	$ 34	$ 63	$ (176)	$ (240)	$ (169)	$ 5	$ 10	$ 4
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlement	(23)	(1)	—	—	—	—	—	—	—
Net (gain) loss	(221)	(121)	157	459	723	201	(6)	(18)	8
Prior service cost (credit)	1	2	1	—	—	13	5	—	—
Amortization of:									
Prior service (cost) credit	(9)	(8)	(10)	(1)	(1)	—	(1)	1	1
Actuarial gain (loss)	(89)	(56)	(84)	(213)	(92)	(151)	—	(1)	—
Total recognized in OCI and regulatory assets/liabilities (b)	(341)	(184)	64	245	630	63	(2)	(18)	9
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (b)	$ (264)	$ (150)	$ 127	$ 69	$ 390	$ (106)	$ 3	$ (8)	$ 13

(a) Includes a settlement charge for a retired PPL executive as well as a settlement charge incurred as a result of the amount of lump sum payment distributions from the LKE qualified pension plan. In accordance with existing regulatory accounting treatment, LG&E and KU have primarily maintained the settlement charge in regulatory assets to be amortized in accordance with existing regulatory practice. The portion of the settlement attributed to LKE's operations outside of the jurisdiction of the KPSC has been charged to expense.

(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.

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		
	2020	2019	2018	2020	2019	2018
OCI	$ (428)	$ (194)	$ 90	$ (12)	$ (13)	$ 20
Regulatory assets/liabilities	87	10	(26)	10	(5)	(11)
Total recognized in OCI and regulatory assets/liabilities	$ (341)	$ (184)	$ 64	$ (2)	$ (18)	$ 9

(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		
	2020	2019	2018	2020	2019	2018
Net periodic defined benefit costs (credits):						
Service cost	$ 24	$ 22	$ 25	$ 4	$ 4	$ 4
Interest cost	57	66	63	7	8	8
Expected return on plan assets	(101)	(101)	(102)	(9)	(8)	(9)
Amortization of:						
Prior service cost	8	8	9	1	1	1
Actuarial (gain) loss (a)	41	22	35	(1)	(1)	—
Net periodic defined benefit costs (credits) before settlements	$ 29	$ 17	$ 30	$ 2	$ 4	$ 4
Settlements (b)	15	—	—	—	—	—
Net periodic defined benefit costs (credits) (c)	$ 44	$ 17	$ 30	$ 2	$ 4	$ 4
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Settlements	$ (15)	$ —	$ —	$ —	$ —	$ —
Net (gain) loss	(29)	(37)	40	(1)	(14)	1
Prior service cost	2	2	—	5	—	—
Amortization of:						
Prior service credit	(8)	(8)	(9)	(1)	(1)	(1)
Actuarial gain (loss)	(41)	(22)	(35)	1	1	—
Total recognized in OCI and regulatory assets/liabilities	(91)	(65)	(4)	4	(14)	—
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ (47)	$ (48)	$ 26	$ 6	$ (10)	$ 4

(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 $11 million in 2020, $5 million in 2019 and $11 million in 2018.

(b) Due to the amount of lump sum payment distributions from the LKE qualified pension plan, a settlement charge of $15 million for the year ended December 31, 2020 was incurred. In accordance with existing regulatory accounting treatment, LG&E and KU have primarily maintained the settlement charge in regulatory assets to be amortized in accordance with existing regulatory practice. The portion of the settlement attributable to LKE’s operations outside of the jurisdiction of the KPSC has been charged to expense.

(c) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, settlement charges of $5 million in 2019 and $6 million in 2018 were incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

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		
	2020	2019	2018	2020	2019	2018
OCI	$ (5)	$ 13	$ (25)	$ (2)	$ (7)	$ 4
Regulatory assets/liabilities	(86)	(78)	21	6	(7)	(4)
Total recognized in OCI and regulatory assets/liabilities	$ (91)	$ (65)	$ (4)	$ 4	$ (14)	$ —

(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	
	2019 (a)	2018
Net periodic defined benefit costs (credits):		
Service cost	$ 1	$ 1
Interest cost	11	12
Expected return on plan assets	(21)	(22)
Amortization of:		
Prior service cost (credit)	5	5
Actuarial loss (b)	9	7
Net periodic defined benefit costs (credits) (c)	$ 5	$ 3
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:		
Net (gain) loss	$ (19)	$ 22
Prior service cost	—	—
Amortization of:		
Prior service credit	(5)	(5)
Actuarial gain	(9)	(7)
Total recognized in regulatory assets/liabilities	(33)	10
Total recognized in net periodic defined benefit costs and regulatory assets	$ (28)	$ 13

(a) The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan, sponsored by LKE.
(b) 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 $3 million in 2019 and $2 million in 2018.
(c) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, settlement charges of $5 million in 2019 and $6 million in 2018 were incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to 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.					
	2020	2019	2018	2020	2019	2018	2020	2019	2018
PPL	$ 40	$ 18	$ 40	$ (237)	$ (287)	$ (226)	$ 4	$ 8	$ 2
PPL Electric (a)	(2)	(4)	4				2	4	(1)
LKE (b)	20	12	21				1	2	3
LG&E (a) (b)	4	3	4				2	2	2
KU (a) (b)	1	(1)	2				—	—	1

(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. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. Effective January 1, 2020, the LKE and LG&E defined benefit pension plans were merged into a combined defined benefit pension plan, sponsored by LKE, therefore LG&E and KU do not directly sponsor any defined benefit plans. LG&E and KU were allocated these costs of defined benefit plans sponsored by LKE, based on their participation in those plans, which management believes are reasonable. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to LG&E and KU from LKS.
(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 Other operation and maintenance, Other Income (Expense) - net or regulatory assets, excluding amounts charged to construction and other non-expense accounts, $3 million for LG&E and $1 million for KU were recorded as regulatory assets in 2020, $2 million for LG&E and $1 million for KU were recorded as regulatory assets in 2019 and $3 million for LG&E and $2 million for KU were recorded as regulatory assets in 2018.

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. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits		Other Postretirement Benefits	
	2019 (a)	2018	2019 (a)	2018
LG&E Non-Union Only	$ —	$ 2	$ 2	$ 2

(a) The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan, sponsored by LKE.

(PPL, LKE and LG&E)

PPL, LKE, and LG&E use base mortality tables issued by the Society of Actuaries for all U.S. defined benefit pension and other postretirement benefit plans. In 2019, PPL, LKE and LGE used RP-2014 base tables with collar and factor adjustments, where applicable, and the MP-2017 mortality improvement scale from 2006 on a generational basis. In 2020, PPL and LKE updated to the Pri-2012 base table and the MP-2020 projection scale with varying adjustment factors based on the underlying demographic and geographic differences and experience of the plan participants.

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				Other Postretirement Benefits	
	U.S.		U.K.			
	2020	2019	2020	2019	2020	2019
PPL						
Discount rate	2.92 %	3.64 %	1.53 %	1.94 %	2.84 %	3.60 %
Rate of compensation increase	3.76 %	3.79 %	3.25 %	3.25 %	3.75 %	3.76 %
LKE						
Discount rate	2.91 %	3.62 %			2.85 %	3.59 %
Rate of compensation increase	3.50 %	3.50 %			3.50 %	3.50 %
LG&E						
Discount rate	— %	3.60 %				

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						Other Postretirement Benefits		
	U.S.			U.K.					
	2020	2019	2018	2020	2019	2018	2020	2019	2018
PPL									
Discount rate service cost	3.64 %	4.35 %	3.70 %	2.03 %	3.12 %	2.73 %	3.60 %	4.31 %	3.64 %
Discount rate interest cost	3.64 %	4.35 %	3.70 %	1.73 %	2.62 %	2.31 %	3.60 %	4.31 %	3.64 %
Rate of compensation increase	3.79 %	3.79 %	3.78 %	3.25 %	3.50 %	3.50 %	3.76 %	3.76 %	3.75 %
Expected return on plan assets	7.25 %	7.25 %	7.25 %	7.13 %	7.21 %	7.23 %	6.44 %	6.46 %	6.40 %
LKE									
Discount rate	3.62 %	4.35 %	3.69 %				3.59 %	4.32 %	3.65 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %				3.50 %	3.50 %	3.50 %
Expected return on plan assets (a)	7.25 %	7.25 %	7.25 %				7.02 %	7.00 %	7.15 %
LG&E									
Discount rate	— %	4.33 %	3.65 %						
Expected return on plan assets (a)	— %	7.25 %	7.25 %						

(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.

(PPL and LKE)

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

	2020	2019	2018
PPL and LKE			
Health care cost trend rate assumed for next year			
– obligations	6.5 %	6.6 %	6.6 %
– cost	6.6 %	6.6 %	6.6 %
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	2027	2024	2023
– cost	2024	2023	2022

(PPL)

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

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2020	2019	2020	2019	2020	2019
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$ 4,146	$ 3,883	$ 8,515	$ 7,275	$ 557	$ 538
Service cost	56	50	89	68	6	6
Interest cost	146	164	143	187	19	22
Participant contributions	—	—	12	12	15	14
Plan amendments	2	2	—	—	5	—
Actuarial (gain) loss	256	368	624	1,220	29	34
Settlements	(114)	(21)	—	—	—	—
Gross benefits paid	(241)	(300)	(366)	(363)	(58)	(58)
Federal subsidy	—	—	—	—	—	1
Currency conversion	—	—	281	116	—	—
Benefit Obligation, end of period	4,251	4,146	9,298	8,515	573	557
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,585	3,109	8,945	7,801	340	301
Actual return on plan assets	723	735	805	1,095	56	71
Employer contributions	115	63	272	278	18	10
Participant contributions	—	—	12	12	11	10
Settlements	(114)	(22)	—	—	—	—
Gross benefits paid	(241)	(300)	(366)	(363)	(58)	(52)
Currency conversion	—	—	302	122	—	—
Plan assets at fair value, end of period	4,068	3,585	9,970	8,945	367	340
Funded Status, end of period	$ (183)	$ (561)	$ 672	$ 430	$ (206)	$ (217)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	$ 24	$ 24	$ 682	$ 440	$ —	$ 11
Current liability	(18)	(8)	—	(1)	(22)	(2)
Noncurrent liability	(189)	(577)	(10)	(9)	(184)	(226)
Net amount recognized, end of period	$ (183)	$ (561)	$ 672	$ 430	$ (206)	$ (217)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	$ 27	$ 34	$ 11	$ 11	$ 14	$ 10
Net actuarial (gain) loss	695	1,029	3,682	3,435	—	6
Total (a)	$ 722	$ 1,063	$ 3,693	$ 3,446	$ 14	$ 16

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2020	2019	2020	2019	2020	2019
Total accumulated benefit obligation for defined benefit pension plans	$ 4,024	$ 3,910	$ 8,516	$ 7,821		

(a) 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	
	2020	2019	2020	2019
AOCI	$ 270	$ 352	$ 10	$ 13
Regulatory assets/liabilities	452	711	4	3
Total	$ 722	$ 1,063	$ 14	$ 16

The actuarial loss for U.S. pension plans in 2020 was related to a change in the discount rate used to measure the benefit obligations of those plans offset by gains resulting from the updated mortality assumptions noted above and other demographic assumption changes resulting from the completion of a tri-annual demographic experience study. The actuarial loss for U.S. pension plans in 2019 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans.

The actuarial loss for U.K. pension plans in 2020 and 2019 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans.

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.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2020	2019	2020	2019
Projected benefit obligation	$ 1,875	$ 3,861	$ 11	$ 10
Fair value of plan assets	1,668	3,275	—	—

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2020	2019	2020	2019
Accumulated benefit obligation	$ 184	$ 3,624	$ 11	$ 10
Fair value of plan assets	—	3,275	—	—

(LKE)

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$ 1,684	$ 1,580	$ 208	$ 205
Service cost	24	22	4	4
Interest cost	57	66	7	8
Participant contributions	—	—	9	7
Plan amendments	2	2	5	—
Actuarial (gain) loss (a)	164	166	18	5
Settlements	(83)	(16)	—	—
Gross benefits paid	(63)	(136)	(22)	(21)
Benefit Obligation, end of period	1,785	1,684	229	208
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,470	1,294	141	117
Actual return on plan assets	294	304	28	27
Employer contributions	50	24	4	11
Participant contributions	—	—	9	7
Settlements	(83)	(16)	—	—
Gross benefits paid	(63)	(136)	(22)	(21)
Plan assets at fair value, end of period	1,668	1,470	160	141
Funded Status, end of period	$ (117)	$ (214)	$ (69)	$ (67)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$ —	$ 24	$ —	$ 11
Current liability	(5)	(5)	(2)	(2)
Noncurrent liability	(112)	(233)	(67)	(76)
Net amount recognized, end of period	$ (117)	$ (214)	$ (69)	$ (67)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	$ 23	$ 30	$ 14	$ 10
Net actuarial (gain) loss	296	380	(37)	(37)
Total	$ 319	$ 410	$ (23)	$ (27)
Total accumulated benefit obligation for defined benefit pension plans	$ 1,657	$ 1,561		

(a) The actuarial (gain) loss for all pension plans in 2020 and 2019 was primarily related to changes in the discount rate used to measure the benefit obligations of those plans.

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
AOCI	$ 127	$ 132	$ 2	$ 4
Regulatory assets/liabilities	192	278	(25)	(31)
Total	$ 319	$ 410	$ (23)	$ (27)

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	
	2020	2019
Projected benefit obligation	$ 1,785	$ 1,398
Fair value of plan assets	1,668	1,160

	ABO in excess of plan assets	
	2020	2019
Accumulated benefit obligation	$ 104	$ 1,276
Fair value of plan assets	—	1,160

(LG&E)

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

	Pension Benefits
	2019 (a)
Change in Benefit Obligation	
Benefit Obligation, beginning of period	$ 285
Service cost	1
Interest cost	11
Actuarial (gain) loss	25
Gross benefits paid	(36)
Benefit Obligation, end of period	286
Change in Plan Assets	
Plan assets at fair value, beginning of period	281
Actual return on plan assets	64
Employer contributions	1
Gross benefits paid	(36)
Plan assets at fair value, end of period	310
Funded Status, end of period	$ 24
Amounts recognized in the Balance Sheets consist of:	
Noncurrent asset (liability)	$ 24
Net amount recognized, end of period	$ 24
Amounts recognized in regulatory assets (pre-tax) consist of:	
Prior service cost	$ 17
Net actuarial loss	79
Total	$ 96
Total accumulated benefit obligation for defined benefit pension plan	$ 286

(a) The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan, sponsored by LKE.

LG&E's pension plan had plan assets in excess of projected and accumulated benefit obligations December 31, 2019.

In addition to the plan it sponsored, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's 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 (assets)/liabilities at December 31 as follows:

	2020	2019
Pension	$ (78)	$ (7)
Other postretirement benefits	68	63

(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. 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 (assets)/liabilities at December 31 as follows:

	2020	2019
Pension	$ (4)	$ 179
Other postretirement benefits	99	122

(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. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 15 for additional information on costs allocated to KU from LKS. These allocations are based on KU's 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 (assets)/liabilities at December 31 as follows.

	2020	2019
Pension	$ (62)	$ (31)
Other postretirement benefits	16	16

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plan 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 based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, 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 2020 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		2020
	2020	2019 (a)	Target Asset Allocation (a)
Growth Portfolio	**56 %**	**57 %**	**55 %**
Equity securities	34 %	34 %	
Debt securities (b)	13 %	14 %	
Alternative investments	9 %	9 %	
Immunizing Portfolio	**43 %**	**42 %**	**43 %**
Debt securities (b)	33 %	35 %	
Derivatives	10 %	7 %	
Liquidity Portfolio	**1 %**	**1 %**	**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 whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of $1.7 billion and $1.5 billion at December 31, 2020 and 2019 represents an interest of approximately 41% in the Master Trust.

(LG&E)

LG&E had a pension plan whose assets were invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of $310 million at December 31, 2019 represented an interest of approximately 9% in the Master Trust. The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan, sponsored by LKE.

The fair value of LKE's plan assets allocated to LG&E was $618 million and $251 million at December 31, 2020 and 2019.

(KU)

The fair value of LKE's plan assets allocated to KU was $505 million and $445 million at December 31, 2020 and 2019.

(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, 2020				December 31, 2019			
		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	$ 300	$ 300	$ —	$ —	$ 182	$ 182	$ —	$ —
Equity securities:								
U.S. Equity	60	60	—	—	194	194	—	—
U.S. Equity fund measured at NAV (a)	742	—	—	—	451	—	—	—
International equity fund at NAV (a)	566	—	—	—	554	—	—	—
Commingled debt measured at NAV (a)	712	—	—	—	621	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	336	335	1	—	310	309	1	—
Corporate	1,045	—	1,030	15	951	—	931	20
Other	13	—	13	—	14	—	14	—
Alternative investments:								
Real estate measured at NAV (a)	76	—	—	—	88	—	—	—
Private equity measured at NAV (a)	68	—	—	—	62	—	—	—
Hedge funds measured at NAV (a)	223	—	—	—	194	—	—	—

	December 31, 2020				December 31, 2019			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Limited Partnerships at NAV (a)	6	—	—	—	—	—	—	—
Derivatives	(37)	—	(37)	—	3	—	3	—
Insurance contracts	—	—	—	—	4	—	—	4
PPL Services Corporation Master Trust assets, at fair value	4,110	$ 695	$ 1,007	$ 15	3,628	$ 685	$ 949	$ 24
Receivables and payables, net (b)	116				99			
401(h) accounts restricted for other postretirement benefit obligations	(158)				(142)			
Total PPL Services Corporation Master Trust pension assets	$ 4,068				$ 3,585			

(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, net represents 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, 2020 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 20	$ 4	$ 24
Purchases, sales and settlements	(5)	(4)	(9)
Balance at end of period	$ 15	$ —	$ 15

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2019 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	$ 25	$ 21	$ 46
Actual return on plan assets:			
Relating to assets still held at the reporting date	(1)	4	3
Relating to assets sold during the period	3	—	3
Purchases, sales and settlements	(7)	(21)	(28)
Balance at end of period	$ 20	$ 4	$ 24

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.

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 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 strategy 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. The partnerships have limited lives of at least 10 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. At December 31, 2020, the Master Trust has unfunded commitments of $45 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 limited partnerships include Term Asset-Backed Securities Loan Facility (TALF) funds. The Master Trust received notice that the TALF funds are liquidating in an orderly manner and distributing capital back to the partners. Therefore, the Master Trust has no unfunded commitment related to the TALF funds. Fair value of the funds 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 with 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 treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

In 2019, obligations underlying an investment in an immediate participation guaranteed group annuity contract, classified as Level 3, were assumed by the insurance company, with a residual amount remaining in the general account of the insurer that was paid into the master trust or distributed to participants in 2020.

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
	2020	2019	2020
Asset Class			
U.S. Equity securities	42 %	45 %	45 %
Debt securities (a)	55 %	52 %	50 %
Cash and cash equivalents (b)	3 %	3 %	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.

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, 2020				December 31, 2019			
		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)	89	—	—	—	89	—	—	—
Commingled debt fund measured at NAV (a)	77	—	—	—	68	—	—	—
Debt securities:								
Corporate bonds	37	—	37	—	35	—	35	—
U.S. Treasury and U.S. government sponsored agency	2	—	2	—	—	—	—	—
Total VEBA trust assets, at fair value	210	$ 5	$ 39	$ —	198	$ 6	$ 35	$ —
Receivables and payables, net (b)	(1)				—			
401(h) account assets	158				142			
Total other postretirement benefit plan assets	$ 367				$ 340			

(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 corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value 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.

Investments in U.S. Treasury and U.S. government sponsored agencies represent securities included in a portfolio of investment-grade long-duration fixed income. The fair value 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.

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.

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

	Percentage of plan assets		Target Asset Allocation
	2020	2019	2020
Asset Class			
Cash and cash equivalents	4 %	2 %	— %
Equity securities			
U.K.	— %	— %	2 %
European (excluding the U.K.)	— %	— %	1 %
Asian-Pacific	— %	— %	1 %
North American	— %	1 %	1 %
Emerging markets	— %	— %	1 %
Global equities	23 %	19 %	9 %
Global Tactical Asset Allocation	20 %	29 %	41 %
Debt securities (a)	48 %	43 %	38 %
Alternative investments	5 %	6 %	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, 2020				December 31, 2019			
		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	$ 412	$ 412	$ —	$ —	$ 154	$ 154	$ —	$ —
Equity securities measured at NAV (a) :								
U.K. companies	1	—	—	—	22	—	—	—
European companies (excluding the U.K.)	3	—	—	—	54	—	—	—
Asian-Pacific companies	3	—	—	—	35	—	—	—
North American companies	3	—	—	—	74	—	—	—
Emerging markets companies	1	—	—	—	32	—	—	—
Global Equities	2,253	—	—	—	1,684	—	—	—
Other	1,950	—	—	—	2,584	—	—	—
Debt Securities:								
U.K. corporate bonds	—	—	—	—	5	—	5	—
U.K. corporate bonds measured at NAV (a)	574	—	—	—	—	—	$ —	—
U.K. gilts	4,209	—	4,209	—	3,819	—	3,819	—
Alternative investments:								
Real estate measured at NAV (a)	557	—	—	—	519	—	—	—
Fair value - U.K. pension plans	9,966	$ 412	$ 4,209	$ —	8,982	$ 154	$ 3,824	$ —
Receivables and payables, net (b)	4				(37)			
Total U.K. pension assets	$ 9,970				$ 8,945			

(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, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

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.

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 $30 million in January 2021 to its U.S. pension plans. No additional contributions are expected in 2021.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $18 million of benefit payments under these plans in 2021.

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 $35 million to its other postretirement benefit plans in 2021.

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
2021	$ 296	$ 49	$ 1
2022	284	47	—
2023	279	46	—
2024	275	44	—
2025	273	43	—
2026-2030	1,273	194	1

(LKE)

Effective January 1, 2020, the LKE and LG&E defined benefit pension plans were merged into a combined defined benefit pension plan.

While LKE's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE accelerated its planned January 2021 contribution of $23 million to December 2020. No contributions are expected in 2021.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make $6 million of benefit payments under these plans in 2021.

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 $15 million to its other postretirement benefit plan in 2021.

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
2021	$ 121	$ 15	$ 1
2022	119	16	—
2023	118	16	—
2024	117	16	—
2025	115	16	—
2026-2030	533	75	1

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 valuation performed as of March 31, 2019. WPD expects to make contributions of approximately $183 million in 2021. 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
2021	$ 362
2022	367
2023	370
2024	375
2025	377
2026-2030	1,884

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:

	2020	2019	2018
PPL	$ 42	$ 42	$ 40
PPL Electric	6	6	6
LKE	19	21	20
LG&E	6	6	6
KU	5	5	5

13. Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2020 and 2019, the Balance Sheets reflect the owned interests in the generating plants listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
PPL and LKE				
December 31, 2020				
Trimble County Unit 1	75.00 %	$ 440	$ 64	$ 2
Trimble County Unit 2	75.00 %	1,340	227	106
December 31, 2019				
Trimble County Unit 1	75.00 %	$ 440	$ 54	$ 2
Trimble County Unit 2	75.00 %	1,278	203	134
LG&E				
December 31, 2020				
E.W. Brown Units 6-7	38.00 %	$ 46	$ 22	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00 %	51	22	—
Trimble County Unit 1	75.00 %	440	64	2
Trimble County Unit 2	14.25 %	370	51	54
Trimble County Units 5-6	29.00 %	33	14	1
Trimble County Units 7-10	37.00 %	77	31	1
Cane Run Unit 7	22.00 %	123	15	—
E.W. Brown Solar Unit	39.00 %	10	2	—
Solar Share	44.00 %	2	—	—
December 31, 2019				
E.W. Brown Units 6-7	38.00 %	$ 45	$ 20	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00 %	52	20	—
Trimble County Unit 1	75.00 %	440	54	2
Trimble County Unit 2	14.25 %	340	43	69
Trimble County Units 5-6	29.00 %	32	12	—
Trimble County Units 7-10	37.00 %	78	27	—
Cane Run Unit 7	22.00 %	119	13	—
E.W. Brown Solar Unit	39.00 %	10	2	—
Solar Share	44.00 %	1	—	—
KU				
December 31, 2020				
E.W. Brown Units 6-7	62.00 %	$ 76	$ 37	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	45	20	—
Trimble County Unit 2	60.75 %	970	176	52
Trimble County Units 5-6	71.00 %	77	33	4
Trimble County Units 7-10	63.00 %	129	53	2
Cane Run Unit 7	78.00 %	443	57	2
E.W. Brown Solar Unit	61.00 %	16	3	—
Solar Share	56.00 %	2	—	—
December 31, 2019				
E.W. Brown Units 6-7	62.00 %	$ 75	$ 32	$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00 %	46	14	—
Trimble County Unit 2	60.75 %	938	160	65
Trimble County Units 5-6	71.00 %	76	29	—
Trimble County Units 7-10	63.00 %	128	46	—
Cane Run Unit 7	78.00 %	429	49	1
E.W. Brown Solar Unit	61.00 %	16	2	—
Solar Share	56.00 %	2	—	—

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.

14. Commitments and Contingencies

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	2023
Natural Gas Retail Supply	2022
Coal	2024
Coal Transportation and Fleeting Services	2027
Natural Gas Transportation	2026

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 demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2021	$ 23	$ 11	$ 34
2022	23	11	34
2023	24	10	34
2024	22	10	32
2025	22	10	32
Thereafter	250	109	359
Total	$ 364	$ 161	$ 525

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

	2020	2019	2018
LG&E	$ 12	$ 15	$ 14
KU	6	7	6
Total	$ 18	$ 22	$ 20

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.

Talen Litigation *(PPL)*

Background

In September 2013, one of PPL's former subsidiaries, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply, the parent company of PPL Montana, entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy Marketing also became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

Talen Montana Retirement Plan and Talen Energy Marketing, LLC, Individually and on Behalf of All Others Similarly Situated v. PPL Corporation et al.

On October 29, 2018, Talen Montana Retirement Plan and Talen Energy Marketing filed a putative class action complaint on behalf of current and contingent creditors of Talen Montana who allegedly suffered harm or allegedly will suffer reasonably foreseeable harm as a result of the November 2014 distribution of proceeds from the sale of then-PPL Montana's hydroelectric generating facilities. The action was filed in the Sixteenth Judicial District of the State of Montana, Rosebud County, against PPL and certain of its affiliates and current and former officers and directors (Talen Putative Class Action). Plaintiff asserts claims for, among other things, fraudulent transfer, both actual and constructive; recovery against subsequent transferees; civil conspiracy; aiding and abetting tortious conduct; and unjust enrichment. Plaintiff is seeking avoidance of the purportedly fraudulent transfer, unspecified damages, including punitive damages, the imposition of a constructive trust, and other relief. In December 2018, PPL removed the Talen Putative Class Action from the Sixteenth Judicial District of the State of Montana to the United States District Court for the District of Montana, Billings Division (MT Federal Court). In January 2019, the plaintiff moved to remand the Talen Putative Class Action back to state court, and dismissed without prejudice all current and former PPL Corporation directors from the case. In September 2019, the MT Federal Court granted plaintiff's motion to remand the case back to state court. Although, the PPL defendants petitioned the Ninth Circuit Court of Appeals to grant an appeal of the remand decision, in November 2019, the Ninth Circuit Court of Appeals denied that request and in December 2019, Talen Montana Retirement Plan filed a Second Amended Complaint in the Sixteenth Judicial District of the State of Montana, Rosebud County, which removed Talen Energy Marketing as a plaintiff. In January 2020, PPL defendants filed a motion to dismiss the Second Amended Complaint or, in the alternative, to stay the proceedings pending the resolution of the below mentioned Delaware Action. The Court held a hearing on June 24, 2020 regarding the motion to dismiss. On September 11, 2020, the Court granted PPL defendants' alternative Motion for a Stay of the proceedings.

PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action), in response to and as part of the defense strategy for an action filed by Talen Montana, LLC (the Talen Direct Action, since dismissed) and the Talen Putative Class Action described above (together, the Montana Actions) originally filed in Montana state court in October 2018. In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this time; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. The complaint was subsequently amended on January 11, 2019 and March 20, 2019, to include, among other things, claims related to indemnification with respect to the Montana Actions, request a declaration that the Montana Actions are time-barred under the spinoff agreements, and allege additional facts to support the tortious interference claim. In April 2019, the defendants filed motions to dismiss the amended complaint. In July 2019, the Court heard oral arguments from the parties regarding the motions to dismiss, and in October 2019, the Delaware Court of Chancery issued an opinion sustaining all of the PPL plaintiffs' claims except for the claim for breach of implied covenant of good faith and fair dealing. As a result of the dismissal of the Talen Direct Action in December 2019, in January 2020, Talen Energy filed a new motion to dismiss five of the remaining eight claims in the amended complaint. The Court heard oral argument on the motion to dismiss on May 28, 2020, and on June 22, 2020, issued an opinion denying the motion in its entirety. Discovery is proceeding, and a trial has been scheduled for February 2022.

With respect to each of the Talen-related matters described above, PPL believes that the 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent at all relevant times. Additionally, the agreements entered into in connection with the spinoff, which PPL and affiliates of Talen Energy and Riverstone negotiated and executed prior to the 2014 distribution, directly address the treatment of the proceeds from the sale of PPL Montana's hydroelectric generating facilities; in those agreements, Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds.

PPL believes that it has meritorious defenses to the claims made in the Talen Putative Class Action and intends to continue to vigorously defend against this action. The Talen Putative Class Action and the Delaware Action are both in early stages of litigation; at this time, PPL cannot predict the outcome of these matters or estimate the range of possible losses, if any, that PPL might incur as a result of the claims, although they could be material.

(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 (U.S. District Court) alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. In July 2014, the U.S. District Court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In February 2017, the U.S. District Court dismissed PPL as a defendant and dismissed the final federal claim against LG&E, and in April 2017, issued an Order declining to exercise supplemental jurisdiction on the state law claims dismissing the case in its entirety. In June 2017, the plaintiffs filed a class action complaint in Jefferson County, Kentucky Circuit Court, against LG&E alleging state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. On January 8, 2020, the Jefferson Circuit Court issued an order denying the plaintiffs' request for class certification. On January 14, 2020, the plaintiffs filed a notice of appeal in the Kentucky Court of Appeals. On December 11, 2020, the Court of Appeals issued an order affirming the lower court's denial of class certification. In December 2020, plaintiffs filed a petition for discretionary review with the Kentucky Supreme Court. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

(PPL, LKE and KU)

E.W. Brown Environmental Claims

In July 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky (U.S. District Court) alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. In December 2017, the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. In January 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. In September 2018, the U.S. Court of Appeals for the Sixth Circuit issued its ruling affirming the lower court's decision to dismiss the Clean Water Act claims but reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. In October 2018, KU filed a petition for rehearing to the U.S. Court of Appeals for the Sixth Circuit regarding the RCRA claims. In November 2018, the U.S. Court of Appeals for the Sixth Circuit denied KU's petition for rehearing regarding the RCRA claims. In January 2019, KU filed an answer to plaintiffs' complaint in the U.S. District Court. Discovery is complete and the parties' motions for partial summary judgment are pending. In December 2020, the U.S. District Court delayed the trial scheduled for February 2, 2021 indefinitely due to pandemic considerations. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

KU is undertaking extensive remedial measures at the E.W. Brown plant including work preparing for closure of the former ash pond, implementation of a groundwater remedial action plan and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. The aquatic study and risk assessment are being undertaken pursuant to a 2017 agreed Order with the Kentucky Energy and Environment Cabinet (KEEC). KU conducted sampling of Herrington Lake in 2017 and 2018. In June 2019, KU submitted to the KEEC the required aquatic study and risk assessment, conducted by an independent third-party consultant, finding that discharges from the E.W. Brown plant have not had any significant impact on Herrington Lake and that the water in the lake is safe for recreational use and meets safe drinking water standards. However, until the KEEC assesses the study and issues any regulatory determinations, PPL, LKE and KU are unable to determine whether additional remedial measures will be required at the E.W. Brown plant.

Air

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. On July 31, 2020, the U.S. Department of Justice and Louisville Metro Air Pollution Control District filed a complaint in the U.S. District Court for the Western District of Kentucky alleging violations specified in the EPA notice of violation and seeking civil penalties and injunctive relief. In October 2020, LG&E filed a motion to dismiss the complaint. In December 2020, the U.S. Department of Justice and the Louisville Metro Air Pollution Control District filed an amended complaint. In February 2021, LG&E filed a renewed motion to dismiss regarding the amended complaint. 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. An estimate or range of possible losses cannot be determined.

Water/Waste

(PPL, LKE, LG&E and KU)

ELGs

In 2015, the EPA finalized ELGs for wastewater discharge permits for new and existing steam electricity generating facilities. These guidelines require deployment of additional control technologies providing physical, chemical and biological treatment and mandate operational changes including "no discharge" requirements for certain wastewaters. The implementation date for individual generating stations was to be determined by the states on a case-by-case basis according to criteria provided by the EPA. Legal challenges to the final rule were consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA issued a rule to postpone the compliance date for certain requirements. On October 13, 2020, the EPA published final revisions to its best available technology standards for certain wastewaters and potential extensions to compliance dates. The rule will be implemented by the states or applicable permitting authorities in the course of their normal permitting activities. LG&E and KU have developed responsive compliance strategies and schedules. Certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Certain costs are included in the Registrants' capital plans and expected to be recovered from customers through rate recovery mechanisms, but additional costs and recovery will depend on further regulatory developments at the state level. See Note 7 for additional information regarding LG&E's and KU's applications for ECR rate treatment of construction costs relating to regulations addressing ELGs.

CCRs

In 2015, the EPA issued a final rule governing management of CCRs which include fly ash, bottom ash and sulfur dioxide scrubber wastes. The CCR Rule imposes extensive new requirements for certain CCR impoundments and landfills, including public notifications, location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements, and specifies restrictions relating to the beneficial use of CCRs. In July 2018, the EPA issued a final rule extending the deadline for closure of certain impoundments and adopting other substantive changes. In August 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule. In December 2019, the EPA addressed the deficiencies identified by the court and proposed amendments to change the closure deadline. In August 2020, the EPA published a final rule extending the deadline to initiate closure to April 11, 2021, while providing for certain extensions. The EPA is conducting ongoing rulemaking actions to adopt various other amendments to the rule. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing litigation and rulemaking or potential impacts on current LG&E and KU compliance plans. The Registrants are currently finalizing closure plans and schedules.

In January 2017, Kentucky issued a new state rule relating to CCR management, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. As a result of a subsequent legal challenge, in January 2018, the Franklin County, Kentucky Circuit Court issued an opinion invalidating certain procedural elements of the rule. LG&E and KU presently operate their facilities under continuing permits authorized under the former program and do not currently anticipate material impacts as a result of the judicial ruling. The Kentucky Energy and Environmental Cabinet has announced it intends to propose new state rules aimed at addressing procedural deficiencies identified by the court and providing the regulatory framework necessary for operation of the state program in lieu of the federal CCR Rule. Associated costs are expected to be subject to rate recovery.

LG&E and KU received KPSC approval for a compliance plan providing for the 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 the federal CCR rule, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law. Since 2017, LG&E and KU have commenced closure of many of the subject impoundments and have completed closure of some of their smaller impoundments. LG&E and KU expect to commence closure of the remaining impoundments no later than April 2021. LG&E and KU generally expect to complete impoundment closures within five years of commencement, although a longer period may be required to complete closure of some facilities. Associated costs are expected to be subject to rate recovery.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. 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.

(All Registrants)

Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating and remediating contamination under the federal Superfund program and similar state programs. Actions are under way at certain sites including former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated by, or currently owned by predecessors or affiliates of, PPL Electric, LG&E and KU. PPL Electric is potentially responsible for a share of clean-up costs at certain sites including the Columbia Gas Plant site and the Brodhead site. Cleanup 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.

At December 31, 2020 and December 31, 2019, PPL Electric had a recorded liability of $10 million representing its best estimate of the probable loss incurred to remediate the sites identified above. Depending on the outcome of investigations at identified 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. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability or range of reasonably possible losses, if any, related to these sites. Such costs, however, are not currently 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, individual states may establish stricter standards for water quality and soil cleanup, that 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 possible losses, if any, related to these matters.

Regulatory Issues

See Note 7 for information on regulatory matters related to utility rate regulation.

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.

PPL Electric, LG&E and KU 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 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 an estimate or range of possible losses cannot be determined.

Other

Labor Union Agreements

(LKE and KU)

In August 2020, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2023. The agreement covers approximately 48 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.

(LKE and LG&E)

In November 2020, LG&E and the IBEW ratified a three-year collective bargaining agreement through November 2023. The agreement covers approximately 640 employees. The terms of the labor agreement are not expected to have a significant impact on the financial results of LKE or LG&E.

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. Examples of such agreements include: 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 obligations of PPL Capital Funding.

(All Registrants)

The table below details guarantees provided as of December 31, 2020. "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," for which PPL has a total recorded liability of $5 million at December 31, 2020 and December 31, 2019. 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, 2020		Expiration Date
PPL			
WPD indemnifications for entities in liquidation and sales of assets	$ 11	(a)	2022
WPD guarantee of pension and other obligations of unconsolidated entities	95	(b)	
LKE			
Indemnification of lease termination and other divestitures	200	(c)	2021
LG&E and KU			
LG&E and KU obligation of shortfall related to OVEC		(d)	

(a) 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 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.

(b) 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, 2020, 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.

(c) 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. 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.

(d) 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 $104 million at December 31, 2020, consisting of LG&E's share of $72 million and KU's share of $32 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 March 2018, a sponsor with a 4.85% pro-rata share of OVEC obligations filed for bankruptcy under Chapter 11 and, in August 2018, received a rejection order for the OVEC power purchase contract in the bankruptcy proceeding. OVEC and other entities challenged the contract rejection, the bankruptcy plan confirmation and regulatory aspects of the plan in various forums. In May 2020, OVEC and the relevant sponsor announced a settlement resolving all disputed matters in the bankruptcy and other proceedings, including providing that the sponsor will withdraw its request to reject the power purchase agreement. The settlement was implemented in July 2020. Periodically, OVEC and certain of its sponsors, including LG&E and KU, may consider certain potential additional credit support actions to preserve OVEC's access to credit markets, including establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt.

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.

Risks and Uncertainties *(All Registrants)*

The COVID-19 pandemic has disrupted the U.S. and global economies and continues to present extraordinary challenges to businesses, communities, workforces and markets. In the U.S. and throughout the world, governmental authorities have taken urgent and extensive actions to contain the spread of the virus and mitigate known or foreseeable impacts. In the Registrants' service territories, mitigation measures have included quarantines, stay-at-home orders, travel restrictions, reduced operations or closures of businesses, schools and governmental agencies, and legislative or regulatory actions to address health or other pandemic-related concerns, all of which have the potential to adversely impact the Registrants' business and operations, especially if these measures remain in effect for a prolonged period of time.

To date, there has been no material impact on the Registrants' operations, financial condition, liquidity or on their supply chain as a result of COVID-19; however, the duration and severity of the outbreak and its ultimate effects on the global economy, the financial markets, or the Registrants' workforce, customers and suppliers are uncertain. A protracted slowdown of broad sectors of the economy, prolonged or pervasive restrictions on businesses and their workforces, or significant changes in legislation or regulatory policy to address the COVID-19 pandemic all present significant risks to the Registrants. These or other unpredictable events resulting from the pandemic could further reduce customer demand for electricity and gas, impact the Registrants' employees and supply chains, result in an increase in certain costs, delay payments or increase bad debts, or result in changes in the fair value of their assets and liabilities, which could materially and adversely affect the Registrants' business, results of operations, financial condition or liquidity.

15. Related Party Transactions

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 and vice versa. 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 PPL, PPL Electric and LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all services companies, the costs of directly assignable and attributable 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. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. 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.

	2020	2019	2018
PPL Electric from PPL Services	$ 50	$ 59	$ 59
LKE from PPL Services	27	28	26
PPL Electric from PPL EU Services	176	152	148
LG&E from LKS	170	160	151
KU from LKS	180	178	169

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

(PPL Electric)

PPL Energy Funding maintains a $650 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at December 31, 2020 and 2019. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statements.

(LKE)

LKE maintains a $375 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, 2020 and 2019, $251 million and $150 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2020 and 2019 were 1.65% and 3.20%. Interest expense on the revolving line of credit was not significant for 2020, 2019 or 2018.

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, 2020 and 2019. The interest rate on the loan based on the PPL affiliates credit rating is currently equal to one-month LIBOR plus a spread.

LKE maintains 10-year notes with a combined value of $1.2 billion with a PPL affiliate with a weighted-average interest rate of 3.9% and maturities ranging from 2026 to 2030. This is inclusive of a 10-year note of $550 million that was entered into in

August 2020. At December 31, 2020 and 2019, the notes were reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on the notes was $33 million for 2020, $24 million for 2019, and $21 million for 2018.

In May 2020, LKE entered into a $450 million term loan credit agreement with a PPL affiliate whereby LKE could borrow funds on a short-term basis at market-based rates. Interest on borrowings was determined as the lower of the daily rate for 30-day non-financial commercial paper programs plus a spread or one-month LIBOR plus a spread. The agreement expired on August 31, 2020. Interest expense on borrowings was not significant for 2020.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $750 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2020 and 2019.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $650 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2020 and 2019.

VEBA Funds Receivable *(PPL Electric)*

In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay medical claims of active bargaining unit employees. Based on PPL Electric's participation in PPL's Other Postretirement Benefit plan, PPL Electric was allocated a portion of the excess funds from PPL Services. These funds have been recorded as an intercompany receivable on the Balance Sheets. The receivable balance decreases as PPL Electric pays incurred medical claims and is reimbursed by PPL Services. The intercompany receivable balance associated with these funds was $22 million as of December 31, 2020, of which $10 million was reflected in "Accounts receivable from affiliates" and $12 million was reflected in "Other noncurrent assets" on the Balance Sheets. The intercompany receivable balance associated with these funds was $32 million as of December 31, 2019, of which $10 million was reflected in "Accounts receivable from affiliates" and $22 million was reflected in "Other noncurrent assets" on the Balance Sheets.

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 12 for discussions regarding intercompany allocations associated with defined benefits.

16. Other Income (Expense) - net

(PPL)

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

	2020	2019	2018
Other Income			
Economic foreign currency exchange contracts (Note 18)	$ (98)	$ (14)	$ 150
Defined benefit plans - non-service credits (Note 12)	262	316	257
Interest income	10	16	6
AFUDC - equity component	20	23	21
Miscellaneous	7	7	6
Total Other Income	201	348	440
Other Expense			
Charitable contributions	3	17	24
Miscellaneous	29	22	20
Total Other Expense	32	39	44
Other Income (Expense) - net	$ 169	$ 309	$ 396

(PPL Electric)

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

	2020	2019	2018
Other Income			
Defined benefit plans - non-service credits (Note 12)	$ 4	$ 4	$ 5
Interest income	2	2	2
AFUDC - equity component	19	23	20
Total Other Income	25	29	27
Other Expense			
Charitable contributions	3	3	3
Miscellaneous	4	1	1
Total Other Expense	7	4	4
Other Income (Expense) - net	$ 18	$ 25	$ 23

17. 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. 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, 2020				December 31, 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 708	$ 708	$ —	$ —	$ 815	$ 815	$ —	$ —
Restricted cash and cash equivalents (a)	19	19	—	—	21	21	—	—
Special use funds (a):								
Commingled debt fund measured at NAV (b)	26	—	—	—	29	—	—	—
Commingled equity fund measured at NAV (b)	25	—	—	—	27	—	—	—
Total special use funds	51	—	—	—	56	—	—	—
Price risk management assets (c):								
Foreign currency contracts	—	—	—	—	142	—	142	—
Cross-currency swaps	146	—	146	—	154	—	154	—
Total price risk management assets	146	—	146	—	296	—	296	—
Total assets	$ 924	$ 727	$ 146	$ —	$ 1,188	$ 836	$ 296	$ —
Liabilities								
Price risk management liabilities (c):								
Interest rate swaps	$ 23	$ —	$ 23	$ —	$ 21	$ —	$ 21	$ —
Foreign currency contracts	137	—	137	—	5	—	5	—
Total price risk management liabilities	$ 160	$ —	$ 160	$ —	$ 26	$ —	$ 26	$ —
PPL Electric								
Assets								

	December 31, 2020				December 31, 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 40	$ 40	$ —	$ —	$ 262	$ 262	$ —	$ —
Restricted cash and cash equivalents (a)	—	—	—	—	2	2	—	—
Total assets	$ 40	$ 40	$ —	$ —	$ 264	$ 264	$ —	$ —
LKE								
Assets								
Cash and cash equivalents	$ 29	$ 29	$ —	$ —	$ 27	$ 27	$ —	$ —
Total assets	$ 29	$ 29	$ —	$ —	$ 27	$ 27	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 23	$ —	$ 23	$ —	$ 21	$ —	$ 21	$ —
Total price risk management liabilities	$ 23	$ —	$ 23	$ —	$ 21	$ —	$ 21	$ —
LG&E								
Assets								
Cash and cash equivalents	$ 7	$ 7	$ —	$ —	$ 15	$ 15	$ —	$ —
Total assets	$ 7	$ 7	$ —	$ —	$ 15	$ 15	$ —	$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	$ 23	$ —	$ 23	$ —	$ 21	$ —	$ 21	$ —
Total price risk management liabilities	$ 23	$ —	$ 23	$ —	$ 21	$ —	$ 21	$ —
KU								
Assets								
Cash and cash equivalents	$ 22	$ 22	$ —	$ —	$ 12	$ 12	$ —	$ —
Total assets	$ 22	$ 22	$ —	$ —	$ 12	$ 12	$ —	$ —

(a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) In accordance with accounting guidance, certain investments that are measured at fair value using net asset value per share (NAV), or its equivalent, 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.
(c) 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.

Special Use Funds

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. In 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees. The funds are invested primarily in commingled debt and equity funds measured at NAV and are classified as investments in equity securities. Changes in the fair value of the funds are recorded to the Statement of Income.

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 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.

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. 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, 2020		December 31, 2019	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	$ 23,127	$ 28,765	$ 21,893	$ 25,481
PPL Electric	4,236	5,338	3,985	4,589
LKE	6,074	7,589	6,002	6,766
LG&E	2,007	2,499	2,005	2,278
KU	2,618	3,334	2,623	3,003

(a) Amounts are net of debt issuance costs.

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.

18. 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 Senior 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 these 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. PPL, 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 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 methods in place.

Foreign Currency Risk (PPL)

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

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. 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

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. 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 regulations, 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 the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods 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" transactions with counterparties, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants 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, thereby 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.

Master Netting Arrangements *(PPL, LKE, LG&E and KU)*

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 an immaterial amount and $14 million obligation to return cash collateral under master netting arrangements at December 31, 2020 and 2019.

PPL had no obligation to post cash collateral under master netting arrangements at December 31, 2020 and 2019.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2020 and 2019.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at December 31, 2020 and 2019.

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. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios 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 had no such contracts at December 31, 2020.

At December 31, 2020, PPL held an aggregate notional value in cross-currency interest rate swap contracts of $702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's 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.

For 2020, 2019 and 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At December 31, 2020, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. 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. 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. At December 31, 2020, LG&E held contracts with a notional amount of $64 million that mature in 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, including the previously announced potential sale of its U.K utility business 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 contracts outstanding at December 31, 2020.

At December 31, 2020 and 2019, PPL had $33 million and $32 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 and anticipated transactions, including the previously announced potential sale of its U.K. utility business. At December 31, 2020, the total exposure hedged by PPL was approximately £4 billion.

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 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 interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2020 and 2019.

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

(PPL)

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

	December 31, 2020				December 31, 2019			
	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)	$ —	$ —	$ —	$ 2	$ —	$ —	$ —	$ 4
Cross-currency swaps (b)	94	—	—	—	5	—	—	—
Foreign currency contracts	—	—	—	137	—	—	142	5
Total current	94	—	—	139	5	—	142	9
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	21	—	—	—	17
Cross-currency swaps (b)	52	—	—	—	149	—	—	—
Total noncurrent	52	—	—	21	149	—	—	17
Total derivatives	$ 146	$ —	$ —	$ 160	$ 154	$ —	$ 142	$ 26

(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	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income
2020			
Cash Flow Hedges:			
Interest rate swaps	$ (9)	Interest Expense	$ (10)
Cross-currency swaps	(15)	Other Income (Expense) - net	(22)
Total	$ (24)		$ (32)
Net Investment Hedges:			
Foreign currency contracts	$ 1		
2019			
Cash Flow Hedges:			
Interest rate swaps	$ (30)	Interest Expense	$ (9)
Cross-currency swaps	17	Other Income (Expense) - net	(9)
Total	$ (13)		$ (18)
Net Investment Hedges:			
Foreign currency contracts	$ 2		
2018			
Cash Flow Hedges:			
Interest rate swaps	$ 4	Interest Expense	$ (8)
Cross-currency swaps	41	Other Income (Expense) - net	42
		Interest Expense	1
Total	$ 45		$ 35
Net Investment Hedges:			
Foreign currency contracts	$ 11		

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2020	2019	2018
Foreign currency contracts	Other Income (Expense) - net	$ (98)	$ (14)	$ 150
Interest rate swaps	Interest Expense	(5)	(5)	(5)
	Total	$ (103)	$ (19)	$ 145

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2020	2019	2018
Interest rate swaps	Regulatory assets - noncurrent	$ (2)	$ (1)	$ 6

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31, 2020:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Other Income (Expense) - net
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	$ 1,001	$ 169
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(10)	—
Cross-currency swaps:		
Hedged items	—	22
Amount of gain (loss) reclassified from AOCI to income	—	(22)

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31, 2019:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Other Income (Expense) - net
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	$ 994	$ 309
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(9)	—
Cross-currency swaps:		
Hedged items	—	9
Amount of gain (loss) reclassified from AOCI to income	—	(9)

(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, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management Assets/Liabilities:				
Interest rate swaps	$ —	$ 2	$ —	$ 4
Total current	—	2	—	4
Noncurrent:				

	December 31, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	21	—	17
Total noncurrent	—	21	—	17
Total derivatives	$ —	$ 23	$ —	$ 21

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)	2020	2019	2018
Interest rate swaps	Interest Expense	$ (5)	$ (5)	$ (5)

Derivative Instruments	Location of Gain (Loss)	2020	2019	2018
Interest rate swaps	Regulatory assets - noncurrent	$ (2)	$ (1)	$ 6

(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 Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2020								
Treasury Derivatives								
PPL	$ 146	$ 34	$ —	$ 112	$ 160	$ 34	$ —	$ 126
LKE	—	—	—	—	23	—	—	23
LG&E	—	—	—	—	23	—	—	23
December 31, 2019								
Treasury Derivatives								
PPL	$ 296	$ 5	$ 14	$ 277	$ 26	$ 5	$ —	$ 21
LKE	—	—	—	—	21	—	—	21
LG&E	—	—	—	—	21	—	—	21

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)

At December 31, 2020, 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
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	$ 102
Aggregate fair value of collateral posted on these derivative instruments	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	102

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

19. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Corporate and Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Balance at beginning of period (a)	$ 2,483	$ 2,447	$ 662	$ 662	$ 53	$ 53	$ 3,198	$ 3,162
Effect of foreign currency exchange rates	76	34	—	—	—	—	76	34
Other	—	2	—	—	—	—	—	2
Balance at end of period (a)	$ 2,559	$ 2,483	$ 662	$ 662	$ 53	$ 53	$ 3,274	$ 3,198

(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, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$ 136	$ 93	$ 136	$ 84
Land rights and easements	460	142	440	135
Licenses and other	21	4	22	3
Total subject to amortization	617	239	598	222

	December 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Not subject to amortization due to indefinite life:				
Land rights and easements	380	—	361	—
Other	6	—	6	—
Total not subject to amortization due to indefinite life	386	—	367	—
Total	$ 1,003	$ 239	$ 965	$ 222

(a) Gross carrying amount in 2020 and 2019 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL.

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:

	2020	2019	2018
Intangible assets with no regulatory offset	$ 11	$ 9	$ 7
Intangible assets with regulatory offset	8	9	8
Total	$ 19	$ 18	$ 15

Amortization expense for each of the next five years is estimated to be:

	2021	2022	2023	2024	2025
Intangible assets with no regulatory offset	$ 11	$ 11	$ 11	$ 11	$ 11
Intangible assets with regulatory offset	8	8	8	8	8
Total	$ 19	$ 19	$ 19	$ 19	$ 19

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 379	$ 129	$ 370	$ 125
Licenses and other	2	1	3	1
Total subject to amortization	381	130	373	126
Not subject to amortization due to indefinite life:				
Land rights and easements	17	—	17	—
Total	$ 398	$ 130	$ 390	$ 126

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2020	2019	2018
Intangible assets with no regulatory offset	$ 4	$ 4	$ 4

Amortization expense for each of the next five years is estimated to be:

	2021	2022	2023	2024	2025
Intangible assets with no regulatory offset	$ 4	$ 4	$ 4	$ 4	$ 4

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 22	$ 4	$ 22	$ 4
OVEC power purchase agreement (a)	125	82	125	74
Total subject to amortization	$ 147	$ 86	$ 147	$ 78

(a) 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 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2020	2019	2018
Intangible assets with regulatory offset	$ 8	$ 9	$ 8

Amortization expense for each of the next five years is estimated to be:

	2021	2022	2023	2024	2025
Intangible assets with regulatory offset	$ 8	$ 8	$ 8	$ 8	$ 8

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 7	$ 1	$ 7	$ 1
OVEC power purchase agreement (a)	86	57	86	51
Total subject to amortization	$ 93	$ 58	$ 93	$ 52

(a) 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 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2020	2019	2018
Intangible assets with regulatory offset	$ 6	$ 6	$ 6

Amortization expense for each of the next five years is estimated to be:

	2021	2022	2023	2024	2025
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, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	$ 15	$ 3	$ 15	$ 3
OVEC power purchase agreement (a)	39	25	39	23
Total subject to amortization	$ 54	$ 28	$ 54	$ 26

(a) 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 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2020	2019	2018
Intangible assets with regulatory offset	$ 2	$ 3	$ 2

Amortization expense for each of the next five years is estimated to be:

	2021	2022	2023	2024	2025
Intangible assets with regulatory offset	$ 2	$ 2	$ 2	$ 2	$ 2

20. 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)

PPL's LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 14 for information on the CCR rule. 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. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. 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	
	2020	2019	2020	2019	2020	2019	2020	2019
ARO at beginning of period	$ 282	$ 347	$ 215	$ 296	$ 73	$ 103	$ 142	$ 193
Accretion	17	19	15	17	5	6	10	11
Obligations incurred	—	—	—	—	—	—	—	—
Changes in estimated timing or cost	38	12	40	(2)	13	(2)	27	—
Effect of foreign currency exchange rates	1	—	—	—	—	—	—	—
Obligations settled	(88)	(96)	(88)	(96)	(24)	(34)	(64)	(62)
ARO at end of period	$ 250	$ 282	$ 182	$ 215	$ 67	$ 73	$ 115	$ 142

21. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 were as follows:

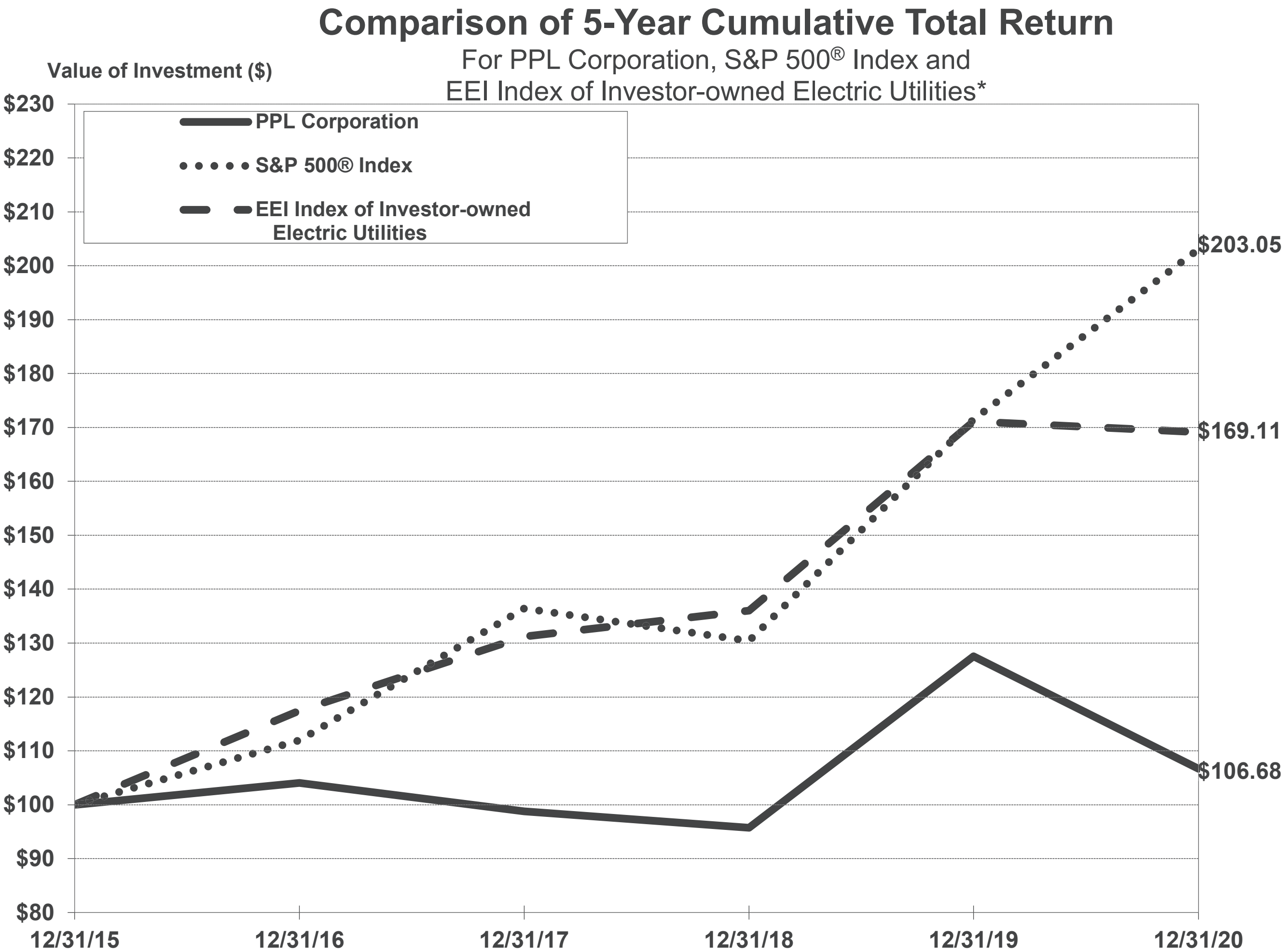
			Defined benefit plans (b)		
	Foreign currency translation adjustments (a)	Unrealized gains (losses) on qualifying derivatives	Prior service costs	Actuarial gain (loss)	Total
PPL					
December 31, 2017	$ (1,089)	$ (13)	$ (7)	$ (2,313)	$ (3,422)
Amounts arising during the year	(444)	36	(11)	(187)	(606)
Reclassifications from AOCI	—	(29)	2	142	115
Net OCI during the year	(444)	7	(9)	(45)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment	$ —	$ (1)	$ (3)	$ (47)	(51)
December 31, 2018	$ (1,533)	$ (7)	$ (19)	$ (2,405)	$ (3,964)
Amounts arising during the year	108	(11)	(1)	(592)	(496)
Reclassifications from AOCI	—	13	2	87	102
Net OCI during the year	108	2	1	(505)	(394)
December 31, 2019	$ (1,425)	$ (5)	$ (18)	$ (2,910)	$ (4,358)
Amounts arising during the year	267	(19)	(1)	(341)	(94)
Reclassifications from AOCI	—	24	3	205	232
Net OCI during the year	267	5	2	(136)	138
December 31, 2020	$ (1,158)	$ —	$ (16)	$ (3,046)	$ (4,220)
LKE					
December 31, 2017			$ (9)	$ (79)	$ (88)
Amounts arising during the year			—	7	7
Reclassifications from AOCI			2	8	10
Net OCI during the year			2	15	17
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)			(2)	(16)	(18)
December 31, 2018			$ (9)	$ (80)	$ (89)
Amounts arising during the year			(1)	(6)	(7)
Reclassifications from AOCI			1	2	3
Net OCI during the year			—	(4)	(4)
December 31, 2019			$ (9)	$ (84)	$ (93)

	Foreign currency translation adjustments (a)	Unrealized gains (losses) on qualifying derivatives	Defined benefit plans (b) Prior service costs	Actuarial gain (loss)	Total
Amounts arising during the year			(1)	(7)	(8)
Reclassifications from AOCI			2	13	15
Net OCI during the year			1	6	7
December 31, 2020			$ (8)	$ (78)	$ (86)

(a) Amounts relate to the operations of WPD.
(b) For PPL, substantially all of the amounts relate to WPD's pension plans. At December 31, 2020, the combined accumulated other comprehensive loss related to these plans was $2.9 billion.

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2020, 2019 and 2018. LKE amounts are insignificant for the years ended December 31, 2020, 2019 and 2018. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 12 for additional information.

Details about AOCI	PPL 2020	2019	2018	Affected Line Item on the Statements of Income
Qualifying derivatives				
Interest rate swaps	$ (10)	$ (9)	$ (8)	Interest Expense
Cross-currency swaps	(22)	(9)	42	Other Income (Expense) - net
	—	—	1	Interest Expense
Total Pre-tax	(32)	(18)	35	
Income Taxes	8	5	(6)	
Total After-tax	(24)	(13)	29	
Defined benefit plans				
Prior service costs	(4)	(3)	(2)	
Net actuarial loss	(256)	(109)	(178)	
Total Pre-tax	(260)	(112)	(180)	
Income Taxes	52	23	36	
Total After-tax	(208)	(89)	(144)	
Total reclassifications during the year	$ (232)	$ (102)	$ (115)	



* Assumes investing $100 on December 31, 2015, and reinvesting dividends in PPL common stock, S&P 500® Index and EEI Index of Investor-owned Electric Utilities.

Management's Report on Internal Control over Financial Reporting

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2020. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management and support services primarily to LKE and its subsidiaries.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, PPL Capital Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Investments Limited – a subsidiary of PPL WPD Limited and parent to WPD plc.

PPL WPD Limited - a U.K. subsidiary of PPL Global, following reorganizations in October 2015 and 2017. PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

Safari Energy - Safari Energy, LLC, a subsidiary of PPL, acquired in June 2018, that provides solar energy solutions for commercial customers in the U.S.

U.K. utility business – the part of PPL's U.K. Regulated segment that is currently being marketed for sale, as announced on August 10, 2020. The entity being marketed is PPL WPD Investments Limited and its subsidiaries, including, notably, WPD plc and the four DNOs.

WPD - refers to PPL WPD Limited and its subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company.

WPD plc - Western Power Distribution plc, a U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-regulated utility generating plants in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pound sterling.

401(h) account(s) - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard (AEPS).

Act 129 Smart Meter program - PPL Electric's system-wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

ADIT - accumulated deferred income tax.

Adjusted Gross Margins - a non-GAAP financial measure of performance used in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

Advanced Metering Infrastructure - meters and meter reading infrastructure that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AIP - annual iteration process.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - at-the-market stock offering program.

Cane Run Unit 7 - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

CDP - a not-for-profit organization based in the United Kingdom formerly known as the Carbon Disclosure Project; that runs the global disclosure system that enables investors, companies, cities, states and regions to measure and manage their environmental impacts.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

COVID-19 - the disease caused by the novel coronavirus identified in 2019 that has caused a global pandemic.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public. A CPCN is required for any capital addition, subject to KPSC jurisdiction, in excess of $100 million.

CPI - consumer price index, a measure of inflation in the U.K. published monthly by the Office for National Statistics.

CPIH - consumer price index including owner-occupiers' housing costs. An aggregate measure of changes in the cost of living in the U.K., including a measure of owner-occupiers' housing costs.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DDCP - Directors Deferred Compensation Plan.

DNO - Distribution Network Operator in the U.K.

DPCR5 - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - PPL Amended and Restated Direct Stock Purchase and Dividend Reinvestment Plan.

DSIC - Distribution System Improvement Charge. Authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

DSO - Distribution System Operation in the U.K. is the effective delivery of a range of functions and services that need to happen to run an advanced electricity distribution network. These functions cover long-term network planning; operations, real-time processes and planning, and markets and settlement. This does not focus on a single party as an operator; but recognizes roles for a range of parties to deliver DSO.

DUoS - Distribution Use of System. The charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

Earnings from Ongoing Operations - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements that apply to coal combustion wastes and byproducts from the production of energy from coal.

ELG(s) - Effluent Limitation Guidelines, regulations promulgated by the EPA.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Fast pot - Under RIIO-ED1, Totex costs that are recovered in the period they are incurred.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG(s) - greenhouse gas(es).

GLT - gas line tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

GWh - gigawatt-hour, one million kilowatt hours.

HB 487 - House Bill 487. Comprehensive Kentucky state tax legislation enacted on April 27, 2018.

IBEW - International Brotherhood of Electrical Workers.

ICP - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

ICPKE - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

IRS - Internal Revenue Service, a U.S. government agency.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

KU 2010 Mortgage Indenture - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

kVA - kilovolt ampere.

kWh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

LIBOR - London Interbank Offered Rate.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

MMBtu - one million British Thermal Units.

MOD - a mechanism applied in the U.K. to adjust allowed base revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

New Source Review - a Clean Air Act program that requires industrial facilities to install updated pollution control equipment when they are built or when making a modification that increases emissions beyond certain allowable thresholds.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and gas and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is recorded at cost. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) relative total shareowner return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

PJM - PJM Interconnection, L.L.C., operator of the electricity transmission network and electricity energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply within its delivery area to retail customers who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PPL EnergyPlus - prior to the June 1, 2015 spinoff of PPL Energy Supply, LLC, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

PPL Energy Supply - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the indirect parent company of PPL Montana, LLC.

PPL Montana - prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL Montana, LLC, a subsidiary of PPL Energy Supply that generated electricity for wholesale sales in Montana and the Pacific Northwest.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been and continue to be based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second generation of the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

Riverstone - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

RPI - retail price index, a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

RTO - Regional Transmission Operator, an electric power transmission system operator that coordinates, controls and monitors a multi-state electric grid.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

Scrubber - an air pollution control device that can remove particulates and/or gases (primarily sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

SIP - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

Slow pot - Under RIIO-ED1, Totex costs that are added (capitalized) to RAV and recovered through depreciation over a 20 to 45 year period.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also has the potential to strengthen network reliability.

S&P - S&P Global Ratings, a credit rating agency.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

Talen Energy - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone, which as of December 6, 2016, became wholly owned by Riverstone.

Talen Energy Marketing - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets, after the June 1, 2015 spinoff of PPL Energy Supply.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

Total shareowner return - the change in market value of a share of the company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

Totex (total expenditures) - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

Treasury Stock Method - a method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

TRU - a mechanism applied in the U.K. to true-up inflation estimates used in determining base revenue.

U.K. Finance Act 2016 - refers to the U.K. Finance Act of 2016, enacted in September 2016, which reduced the U.K. statutory corporate income tax rate from 19% to 17%, effective April 1, 2020.

U.K. Finance Act 2020 - refers to the U.K. Finance Act of 2020, enacted in July 2020, which included a cancellation of the tax rate reduction to 17% in the U.K. Finance Act 2016, thereby maintaining the corporation tax rate at 19% for financial years 2020 and 2021. The U.K. Finance Act 2016 and the U.K. Finance Act 2020 are sometimes collectively referred to as the U.K. Finance Acts.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501 (c)(9) used by employers to fund and pay eligible medical, life and similar benefits.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

DIRECTORS & OFFICERS

DIRECTORS

Arthur P. Beattie, 66, retired Executive Vice President, Chief Financial Officer and Chief Risk Officer of The Southern Company, an American gas and electric utility holding company based in the southern United States.

John W. Conway, 75, retired Chief Executive Officer of Crown Holdings, Inc., an international manufacturer of packaging products for consumer goods. He remains Chairman of the Board of Crown Holdings.

Steven G. Elliott, 74, retired Senior Vice Chairman of The Bank of New York Mellon Corporation, an investment management and investment servicing company.

Raja Rajamannar, 59, Chief Marketing & Communications Officer and President, Healthcare, of MasterCard Incorporated, a technology company in the global payments industry.

Craig A. Rogerson, 64, Chairman, President and Chief Executive Officer of Hexion Holdings Corporation and continues to serve in the same role for Hexion Inc., a global producer of thermoset resins as well as other chemical platforms serving a wide range of market applications. Effective March 1, 2021, he serves as independent Chair of the PPL Board.

Vincent Sorgi, 49, President and Chief Executive Officer of PPL Corporation.

Natica von Althann, 70, former financial and risk executive at Bank of America and Citigroup.

Keith H. Williamson, 68, President of the Centene Charitable Foundation and former Executive Vice President, Secretary and General Counsel of Centene Corporation, a provider of Medicaid-managed care and specialty healthcare services for under-insured and uninsured individuals.

Phoebe A. Wood, 67, Principal of CompaniesWood, a consulting firm specializing in early stage investments. She is the former Vice Chairman and Chief Financial Officer of Brown-Forman Corporation, a diversified consumer products manufacturer.

Armando Zagalo de Lima, 62, retired Executive Vice President of Xerox Corporation, a multinational enterprise for business process and document management.

BOARD COMMITTEES

Executive Committee
Craig A. Rogerson, Chair
Steven G. Elliott
Vincent Sorgi
Natica von Althann
Phoebe A. Wood
Armando Zagalo de Lima

Audit Committee
Steven G. Elliott, Chair
Arthur P. Beattie
Keith H. Williamson
Phoebe A. Wood

Compensation Committee
Natica von Althann, Chair
John W. Conway
Raja Rajamannar
Craig A. Rogerson

Finance Committee
Armando Zagalo de Lima, Chair
Arthur P. Beattie
John W. Conway
Steven G. Elliott
Natica von Althann

Governance and Nominating Committee
Phoebe A. Wood, Chair
Raja Rajamannar
Keith H. Williamson
Armando Zagalo de Lima

EXECUTIVE OFFICERS

Vincent Sorgi, President and Chief Executive Officer, PPL Corporation

Joanne H. Raphael, Executive Vice President, General Counsel and Corporate Secretary, PPL Corporation

Joseph P. Bergstein, Jr., Senior Vice President and Chief Financial Officer, PPL Corporation

Gregory N. Dudkin, President, PPL Electric Utilities Corporation

Philip Swift, Chief Executive, Western Power Distribution

Paul W. Thompson, President and Chief Executive Officer, LG&E and KU Energy LLC

Marlene C. Beers, Vice President and Controller, PPL Corporation

Tadd J. Henninger, Vice President-Finance and Treasurer, PPL Corporation

Annual Meeting
Shareowners are invited to participate in PPL Corporation's virtual Annual Meeting of Shareowners on Tuesday, May 18, 2021, via a live webcast beginning at 9 a.m. Eastern Time.

Stock Exchange Listing
PPL Corporation common stock is listed on the New York Stock Exchange (NYSE). The symbol is PPL. On Feb. 26, 2021, the closing price per share was $26.19, and there were 50,367 shareowners of record.

2020

	High	Low	Dividends Declared
1st quarter	$36.83	$18.12	$0.4150
2nd quarter	$30.94	$21.40	$0.4150
3rd quarter	$29.38	$24.20	$0.4150
4th quarter	$30.81	$26.15	$0.4150

2019

	High	Low	Dividends Declared
1st quarter	$32.89	$27.80	$0.4125
2nd quarter	$32.21	$29.61	$0.4125
3rd quarter	$31.90	$28.55	$0.4125
4th quarter	$36.28	$30.10	$0.4125

The company has paid cash dividends on its common stock in every quarter since 1946. The annualized dividend was $1.66 per share in 2020 and $1.65 per share in 2019. On Feb. 18, 2021, PPL declared a quarterly dividend of $0.4150 per share payable April 1, 2021, to shareowners of record on March 10, 2021.

Dividend Calendar
Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The record dates for dividends for the balance of 2021 are expected to be June 10, September 10 and December 10.

PPL's Website: www.pplweb.com
Shareowners can access PPL publications, such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website may subscribe to receive automated email alerts for SEC filings, earnings news releases, daily stock prices and other financial news.

Financial reports, which are available at www.pplweb.com, will be mailed without charge upon request by contacting:

PPL Treasury Dept.
Two North Ninth Street, Allentown, PA 18101
Email: invserv@pplweb.com
Telephone: 1-800-345-3085

Lost Dividend Checks
Dividend checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Direct Stock Purchase and Dividend Reinvestment Plan (Plan)
PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to $25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL Corporation common stock fully or partially reinvested in PPL common stock, or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System
PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Online Account Access
Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Shareowner Inquiries, Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator
Equiniti Trust Company
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Toll-free: 1-800-345-3085
Outside U.S.: 1-651-450-4064
Website: shareowneronline.com

Corporate Offices
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