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KENTUCKY UTILITIES CO

FORM 10-Q
(Quarterly Report)

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CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1994

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-3464

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia (State or other jurisdiction of incorporation or organization)	61-0247570 (I.R.S. Employer Identification No.)
One Quality Street, Lexington, Kentucky (Address of principal executive offices)	40507 (Zip Code)
Registrant's telephone number, including area code	606-255-2100

Not Applicable

Former name, former address and former fiscal year, if changed since
last report

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes X No .

Number of shares of Common Stock outstanding at August 11, 1994:
37,817,878 shares (owned by the parent-KU Energy Corporation).

PART I. FINANCIAL INFORMATION

KENTUCKY UTILITIES COMPANY
STATEMENTS OF INCOME
(Unaudited)

(in thousands of dollars)

	For the Three Months Ended June 30, 1994	1993
Operating Revenues	$154,026	$139,909
Operating Expenses:		
Fuel, principally coal, used in generation	43,372	43,867
Electric power purchased	16,356	5,471
Other operating expenses	27,645	25,397
Maintenance	18,893	15,140
Depreciation	16,151	15,192
Federal and state income taxes	7,933	9,111
Other taxes	3,642	3,522
Total Operating Expenses	133,992	117,700
Net Operating Income	20,034	22,209
Other Income and Deductions:		
Interest and dividend income	766	649
Other income and deductions - net	1,875	1,519
Total Other Income and Deductions	2,641	2,168
Income Before Interest Charges	22,675	24,377
Interest Charges	8,202	7,955
Net Income	14,473	16,422
Preferred Stock Dividend Requirements	564	630
Net Income Applicable to Common Stock	$ 13,909	$ 15,792

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

KENTUCKY UTILITIES COMPANY
STATEMENTS OF INCOME
(Unaudited)

(in thousands of dollars)

	For the Six Months Ended June 30, 1994	1993
Operating Revenues	$320,554	$294,145
Operating Expenses:		
Fuel, principally coal, used in generation	87,231	87,525
Electric power purchased	32,239	15,439
Other operating expenses	54,332	50,568
Maintenance	33,431	26,461
Depreciation	32,338	30,415
Federal and state income taxes	22,664	23,148
Other taxes	7,705	7,225
Total Operating Expenses	269,940	240,781
Net Operating Income	50,614	53,364
Other Income and Deductions:		
Interest and dividend income	2,502	1,532
Other income and deductions - net	3,048	3,201
Total Other Income and Deductions	5,550	4,733
Income Before Interest Charges	56,164	58,097
Interest Charges	16,347	17,127
Net Income	39,817	40,970
Preferred Stock Dividend Requirements	1,256	1,259
Net Income Applicable to Common Stock	$ 38,561	$ 39,711

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

KENTUCKY UTILITIES COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands of dollars)

	For the Six Months Ended June 30, 1994	1993
Cash Flows from Operating Activities:		
Net Income	$ 39,817	$ 40,970
Items not requiring (providing) cash currently:		
Depreciation	32,338	30,415
Deferred income taxes and investment tax credit	(3,342)	3,032
Change in fuel inventory	179	(1,552)
Change in accounts receivable	2,059	(3,402)
Change in accounts payable	(3,195)	(444)
Change in accrued taxes	2,998	620
Change in accrued utility revenues	1,865	827
Change in liability to ratepayers	(791)	38,979
Change in escrow funds	1,577	(44,886)
Other--net	(3,179)	12,123
Net Cash Provided by Operating Activities	70,326	76,682
Cash Flows from Investing Activities:		
Construction expenditures - utility	(89,468)	(47,299)
Nonutility property	-	(4,956)
Other	170	108
Cash Used by Investing Activities	(89,298)	(52,147)
Cash Flows from Financing Activities:		
Short-term borrowings - net	47,900	-
Issuance of long-term debt	-	123,500
Funds deposited with trustee - net	18,393	(123,795)
Retirement of long-term debt, including premiums	(21)	(57,334)
Retirement of preferred stock, including premium	(20,302)	-
Payment of dividends	(32,139)	(31,513)
Net Cash Provided (Used) by Financing Activities	13,831	(89,142)
Net Decrease in Cash and Cash Equivalents	(5,141)	(64,607)
Cash and Cash Equivalents Beginning of Period	8,832	94,299
Cash and Cash Equivalents End of Period	$ 3,691	$ 29,692
Supplemental Disclosures		
Cash paid for:		
Interest on long-term debt	$ 15,302	$ 17,018
Federal and state income taxes	$ 25,378	$ 20,690

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

KENTUCKY UTILITIES COMPANY
BALANCE SHEETS
(Unaudited)

(in thousands of dollars)

	As of June 30, 1994	As of Dec. 31, 1993
ASSETS		
Utility Plant:		
Plant in service, at cost	$2,020,277	$2,004,688
Less: Accumulated depreciation	910,853	879,960
	1,109,424	1,124,728
Construction work in progress	231,087	158,829
	1,340,511	1,283,557
Current Assets:		
Cash and cash equivalents	3,691	8,832
Escrow funds - coal contract litigation	36,175	37,752
Construction funds held by trustee	2	18,268
Accounts receivable	39,398	41,457
Accrued utility revenues	23,710	25,575
Fuel, principally coal, at average cost	30,894	31,073
Materials and supplies, at average cost	18,271	17,261
Other	8,396	7,804
	160,537	188,022
Investments, Deferred Charges and Other Assets:		
Accumulated deferred income taxes	40,359	35,778
Unamortized loss on reacquired debt	12,831	13,295
Other	37,572	38,400
	90,762	87,473
Total Assets	$1,591,810	$1,559,052
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	$ 559,473	$ 552,106
Preferred stock	40,000	40,000
Long-term debt	442,018	442,045
	1,041,491	1,034,151
Current Liabilities:		
Preferred stock and long-term debt due within one year	21	20,021
Short-term borrowings	47,900	-
Accounts payable	40,811	44,006
Accrued interest	7,029	7,302
Accrued taxes	7,658	4,660
Customers' deposits	6,278	10,803
Accrued payroll and vacations	8,146	7,709
Liab. to ratepayers - coal contract litigation	36,076	36,867
Other	8,367	6,434
	162,286	137,802
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	252,448	248,103
Accumulated deferred investment tax credits	40,330	42,385
Regulatory liabilities	67,780	69,689
Other	27,475	26,922
	388,033	387,099
Total Capitalization and Liabilities	$1,591,810	$1,559,052

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

KENTUCKY UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. PRESENTATION OF CONDENSED INFORMATION

Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information has been condensed and certain footnote disclosures have been omitted, which are normally included in financial statements prepared in accordance with generally accepted accounting principles.

These financial statements should be read in conjunction with the financial statements and notes thereto in the Kentucky Utilities Company (Kentucky Utilities) Annual Report on Form 10-K for the year ended December 31, 1993.

In the opinion of management, the information furnished herein reflects all adjustments which are necessary to present fairly the results of the periods shown and the disclosures which have been made are adequate to make the information not misleading. Results of interim periods are not necessarily indicative of results for any twelve-month period due to the seasonal nature of Kentucky Utilities' business.

2. PREFERRED STOCK

Kentucky Utilities issued $20 million of 6.53% preferred stock in December 1993. On February 1, 1994, Kentucky Utilities used the proceeds from this issue, together with other available funds, to redeem its 7.84% Preferred Stock at a total cost of $20.3 million (including a redemption premium of $.3 million). Kentucky Utilities announced its intention to redeem this preferred stock on December 22, 1993.

KENTUCKY UTILITIES COMPANY

MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY & RESOURCES

Kentucky Utilities' construction expenditures increased approximately $20 million and $42 million for the three-month and six-month periods ended June 30, 1994, respectively, when compared to the corresponding periods of 1993. The increases are attributable primarily to expenditures for combustion turbine peaking units and for compliance with the 1990 Clean Air Act

Amendments.

Kentucky Utilities expects to fund approximately 50% of its remaining 1994 construction expenditures from the issuance of short-term and long-term debt with the balance primarily from internal sources.

RESULTS OF OPERATIONS

Quarter ended June 30, 1994, compared to the Quarter ended June 30, 1993

	Increase (Decrease) From Prior Year Three Months Ended June 30, 1994	
	kWh (%)	Revenues (000's)
Residential	6	$ 2,395
Commercial	4	1,529
Industrial	8	2,186
Mine Power & Public Authorities	4	883
Total Retail Sales	6	6,993
Other Electric Utilities	58	7,037
Provision for Refund - Litigation Settlement	-	(365)
Miscellaneous Revenues & Other	-	452
Total	14	$ 14,117

Operating revenues increased $14.1 million (10%) primarily

as a result of a 14% increase in kilowatt-hour sales. The increase in kilowatt-hour sales is primarily attributable to increases in residential, commercial, industrial and off-system sales. The increases in residential and commercial sales reflect unusually warm weather during the month of June 1994. The increase in industrial sales reflects continued economic growth in the service area. Approximately one third of the increase in industrial sales is due to greater sales to Toyota Motor Manufacturing U.S.A., Inc. (TMM), Kentucky Utilities' largest customer. TMM completed an $800 million assembly plant expansion in March 1994. The increase in off-system sales is attributable to an increase in demand for power due to unusually warm weather and maintenance programs at neighbor-ing utilities. Revenues were reduced by approximately $.4 million resulting from refunds to customers of amounts recovered from a litigation settlement with a former coal supplier.

Fuel and purchased power expense increased $10.4 million (21%). Fuel expense decreased $.5 million (1%). This decrease reflects a 5% decline in net kilowatt-hour generation offset by a 4% increase in the average price per ton of coal consumed. Fuel expense also reflects a $.4 million reduction associated with the refunding to customers of fuel cost savings related to the resolution of a coal contract dispute. Purchased power expense increased by $10.9 million due to greater kilowatt-hour purchases ($7.2 million) and higher demand costs ($3.7 million). The increase in kilowatt-hour purchases during the second quarter of 1994 is the result of the previously discussed sales increases as

well as the decline in net kilowatt-hour generation. The increased kilowatt-hour purchases reflect a permanent increase in capacity entitlement, effective January 1994, under an existing purchased power contract with Electric Energy, Inc. (EEI) and greater kilowatt-hour purchases from Owensboro Municipal Utilities (OMU). Scheduled maintenance of OMU's generating units in the second quarter of 1993 resulted in a reduction of availability during that period. The increase in demand costs is primarily due to the permanent increase in capacity entitlement from EEI.

Maintenance expenses increased $3.8 million (25%), primarily due to the timing of scheduled maintenance at Kentucky Utilities' generating stations.

Six Months ended June 30, 1994, compared to the Six Months ended June 30, 1993

	Increase (Decrease) From Prior Year Six Months Ended June 30, 1994	
	kWh (%)	Revenues (000's)
Residential	9	$ 7,807
Commercial	5	3,209
Industrial	8	3,477
Mine Power & Public Authorities	4	1,452
Total Retail Sales	7	15,945
Other Electric Utilities	48	10,487
Provision for Refund - Litigation Settlement	-	(902)
Miscellaneous Revenues & Other	-	879
Total	12	$ 26,409

Operating revenues increased $26.4 million (9%) primarily as

a result of a 12% increase in kilowatt-hour sales. The increase in kilowatt-hour sales is primarily attributable to increases in residential, commercial, industrial and off-system sales. The increases in residential and commercial sales reflect colder weather during the first quarter of 1994 and unusually warm weather during the month of June 1994. The increase in industrial sales reflects continued economic growth in the service area. Approximately one third of the increase in industrial sales is due to greater sales to TMM due to its recent plant expansion. The increase in off-system sales is attributable to an increase in demand for power due to extreme weather conditions and maintenance programs at neighboring utilities. Revenues were reduced by approximately $.9 million resulting from refunds to customers of amounts recovered from a litigation settlement with a former coal supplier. The $.9 million, which was charged against revenue, represents $3.3 million of fuel savings less $2.4 million for incurred litigation costs and off-system sales which Kentucky Utilities was allowed to retain pursuant to a regulatory order.

Fuel and purchased power expense increased $16.5 million (16%). Fuel expense reflects a $3.3 million reduction associated with the refunding to customers of fuel cost savings related to the resolution of a coal contract dispute. This reduction in fuel expense was substantially offset by a 3.5% increase in the average price of coal consumed. Net kilowatt-hour generation remained fairly constant in comparison to the corresponding six-

month period in 1993. Purchased power expense increased $16.8 million due to greater kilowatt-hour purchases ($10.4 million) and higher demand costs ($6.4 million). The increase in kilowatt-hour purchases is the result of the previously discussed sales increases. The increased kilowatt-hour purchases reflect a permanent increase in capacity entitlement, effective January 1994, under an existing purchased power contract with EEI. The increase in demand costs is primarily due to the permanent increase in capacity entitlement from EEI.

Maintenance expenses increased $7.0 million (26%). The increase is the result of distribution utility line maintenance costs incurred as a result of extensive ice storm damage during the first quarter of 1994, as well as the timing of scheduled maintenance at Kentucky Utilities' generating stations.

ENVIRONMENTAL SURCHARGE

On July 19, 1994, the Kentucky Public Service Commission (PSC) approved Kentucky Utilities' environmental surcharge application. The surcharge is designed to recover certain ongoing operating and capital costs of complying with federal, state or local environmental requirements associated with the production of energy from coal, including the 1990 Clean Air Act Amendments. The environmental surcharge was implemented in August 1994. Kentucky Utilities estimates that it will recover approximately $15 million in environmental costs during the first twelve months and about $23 million during the second twelve

months. Amounts collected will be subject to PSC review every

two years.

Two intervenors have filed petitions with the PSC seeking a

rehearing of the PSC's surcharge order. The PSC has not ruled on

either petition. Any party to the proceeding may appeal the

final PSC order to the Franklin County (KY) Circuit Court.

PART II. OTHER INFORMATION

KENTUCKY UTILITIES COMPANY

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the April 26, 1994 Annual Meeting of Shareholders, the

following proposal was acted upon and approved.

(1) To elect three Directors to the Board of Directors of

Kentucky Utilities Company.

	Votes for	Votes Withheld
Milton W. Hudson	37,817,878	0
John T. Newton	37,817,878	0
William L. Rouse, Jr.	37,817,878	0

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

The following exhibit is filed as part of this report:

Exhibit Number	Description
12	Computation of Ratio of Earnings to Fixed Charges.

(b) Reports on Form 8-K.

None.

KENTUCKY UTILITIES COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENTUCKY UTILITIES COMPANY
(Registrant)

Date	*August 11, 1994*	*/s/ John T. Newton* *John T. Newton* *Chairman and President*
Date	*August 11, 1994*	*/s/ Michael D. Robinson* *Michael D. Robinson* *Controller*

EXHIBIT 12

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	12 Months Ended June 30, 1994 (in thousands, except ratio)
Earnings	
Net Income	$ 80,133
Adjustments	
Fixed charges	32,290
Income taxes	
Current Federal	38,893
Current State	10,058
Deferred Federal-Net	(440)
Deferred State-Net	(720)
Deferred investment tax credit-Net	(97)
Income taxes included in Other Income and Deductions	
Current Federal and State	529
Deferred Federal and State	502
Amortization of investment tax credit	(4,024)
Undistributed income of Electric Energy, Inc.	13
Total Earnings	$157,137
Fixed Charges	
Interest on long-term debt	$ 31,052
Other interest charges	1,238
Total Fixed Charges	$ 32,290
Ratio of Earnings to Fixed Charges	4.87

Note--Rentals are not material and have not been included in fixed charges.

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