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KENTUCKY UTILITIES CO

FORM 10-Q
(Quarterly Report)

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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 September 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 November 9, 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 September 30, 1994	1993
Operating Revenues (See Note 3)	$156,512	$160,615
Operating Expenses:		
Fuel, principally coal, used in generation (See Note 3)	33,972	44,860
Electric power purchased	15,603	10,689
Other operating expenses	27,939	27,120
Maintenance	15,209	12,755
Depreciation	16,308	15,191
Federal and state income taxes	14,208	15,943
Other taxes	3,536	3,417
Total Operating Expenses	126,775	129,975
Net Operating Income	29,737	30,640
Other Income and Deductions:		
Interest and dividend income	771	827
Other income and deductions - net	1,719	1,312
Total Other Income and Deductions	2,490	2,139
Income Before Interest Charges	32,227	32,779
Interest Charges	8,585	7,989
Net Income	23,642	24,790
Preferred Stock Dividend Requirements	564	629
Net Income Applicable to Common Stock	$ 23,078	$ 24,161

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 Nine Months Ended September 30, 1994	1993
Operating Revenues (See Note 3)	$477,066	$454,760
Operating Expenses:		
Fuel, principally coal, used in generation (See Note 3)	121,203	132,385
Electric power purchased	47,842	26,128
Other operating expenses	82,271	77,688
Maintenance	48,640	39,216
Depreciation	48,646	45,606
Federal and state income taxes	36,872	39,091
Other taxes	11,241	10,642
Total Operating Expenses	396,715	370,756
Net Operating Income	80,351	84,004
Other Income and Deductions:		
Interest and dividend income	3,273	2,359
Other income and deductions - net	4,767	4,513
Total Other Income and Deductions	8,040	6,872
Income Before Interest Charges	88,391	90,876
Interest Charges	24,932	25,116
Net Income	63,459	65,760
Preferred Stock Dividend Requirements	1,820	1,888
Net Income Applicable to Common Stock	$ 61,639	$ 63,872

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 Nine Months Ended September 30, 1994	1993
Cash Flows from Operating Activities:		
Net Income	$ 63,459	$ 65,761
Items not requiring (providing) cash currently:		
Depreciation	48,646	45,606
Deferred income taxes and investment tax credit	(4,768)	1,939
Change in fuel inventory	(2,968)	3,853
Change in accounts receivable	(1,651)	(10,192)
Change in accounts payable	623	4,722
Change in accrued taxes	3,648	5,869
Change in accrued utility revenues	4,964	3,037
Change in liability to ratepayers	(28,704)	34,889
Change in escrow funds	29,582	(38,001)
Other--net	3,665	10,067
Net Cash Provided by Operating Activities	116,496	127,550
Cash Flows from Investing Activities:		
Construction expenditures - utility	(130,035)	(104,932)
Nonutility property	(237)	(4,955)
Other	337	124
Cash Used by Investing Activities	(129,935)	(109,763)
Cash Flows from Financing Activities:		
Short-term borrowings - net	59,100	-
Issuance of long-term debt	-	123,500
Funds deposited with trustee - net	18,393	-
Retirement of long-term debt, including premiums	(21)	(180,677)
Retirement of preferred stock, including premium	(20,302)	-
Payment of dividends	(48,114)	(47,270)
Net Cash Provided (Used) by Financing Activities	9,056	(104,447)
Net Decrease in Cash and Cash Equivalents	(4,383)	(86,660)
Cash and Cash Equivalents Beginning of Period	8,832	94,299
Cash and Cash Equivalents End of Period	$ 4,449	$ 7,639
Supplemental Disclosures		
Cash paid for:		
Interest on long-term debt	$ 20,063	$ 24,767
Federal and state income taxes	$ 38,414	$ 33,148

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 Sept. 30, 1994	As of Dec. 31, 1993
ASSETS		
Utility Plant:		
Plant in service, at cost	$2,079,701	$2,004,688
Less: Accumulated depreciation	925,102	879,960
	1,154,599	1,124,728
Construction work in progress	209,325	158,829
	1,363,924	1,283,557
Current Assets:		
Cash and cash equivalents	4,449	8,832
Escrow funds - coal contract litigation	8,170	37,752
Construction funds held by trustee	2	18,268
Accounts receivable	43,108	41,457
Accrued utility revenues	20,611	25,575
Fuel, principally coal, at average cost	34,041	31,073
Materials and supplies, at average cost	18,649	17,261
Other	7,584	7,804
	136,614	188,022
Investments, Deferred Charges and Other Assets:		
Accumulated deferred income taxes	42,162	35,778
Unamortized loss on reacquired debt	12,578	13,295
Other	36,387	38,400
	91,127	87,473
Total Assets	$1,591,665	$1,559,052
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	$ 567,123	$ 552,106
Preferred stock	40,000	40,000
Long-term debt	442,015	442,045
	1,049,138	1,034,151
Current Liabilities:		
Preferred stock and long-term debt due within one year	21	20,021
Short-term borrowings	59,100	-
Accounts payable	44,629	44,006
Accrued interest	9,993	7,302
Accrued taxes	8,308	4,660
Customers' deposits	6,284	10,803
Accrued payroll and vacations	10,075	7,709
Liab. to ratepayers - coal contract litigation	8,163	36,867
Other	7,148	6,434
	153,721	137,802
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	254,593	248,103
Accumulated deferred investment tax credits	39,302	42,385
Regulatory liabilities	65,946	69,689
Other	28,965	26,922
	388,806	387,099
Total Capitalization and Liabilities	$1,591,665	$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 Utili-ties 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.

3. OPERATING REVENUES AND FUEL COSTS

Pursuant to regulatory orders, Kentucky Utilities has been refunding fuel cost savings related to the resolution of a coal contract dispute. Refunds to Kentucky retail customers commenced in July 1994. Refunds were made to Virginia retail customers during the period August 1993 through June 1994. Refunds were made to wholesale customers under the jurisdiction of the Federal Energy Regulatory Commission in lump sum payments in September 1993.

Operating revenues and fuel expense for the respective periods were reduced by the following amounts resulting from the above- mentioned refunds:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	1994	1993	1994	1993
	(in thousands of dollars)			
Reductions in:				
Operating Revenues	$17,540	$4,312	$18,442	$4,312
Fuel, principally coal, used in generation	$18,614	$5,098	$21,980	$5,098

The difference between the reduction in Operating Revenues and the reduction in Fuel Expense is attributed to incurred litigation costs, fuel costs savings related to off-system sales and costs incurred to administer the refund plan. These amounts were allowed to be retained by Kentucky Utilities pursuant to

regulatory orders.

LIQUIDITY & RESOURCES

Kentucky Utilities' construction expenditures increased approximately $26 million for the nine-month period ended September 30, 1994 compared to the same period of 1993. The increase is primarily attributable to expenditures for compliance **with the 1990 Clean Air Act Amendments.**

Kentucky Utilities plans to issue $54 million of tax-exempt debt during the 4th quarter of 1994 to fund certain solid waste disposal facilities' expenditures.

RESULTS OF OPERATIONS

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

	Increase (Decrease) From Prior Year Three Months Ended Sept. 30, 1994	
	kWh (%)	Revenues (000's)
Residential	(9)	$ (3,017)
Commercial	(1)	489
Industrial	9	3,114
Mine Power & Public Authorities	6	1,718
Total Retail Sales	-	2,304
Other Electric Utilities	59	7,403
Miscellaneous Revenues & Other	-	(582)
Total Before Refund	9	9,125
Provision for Refund - Litigation Settlement	-	(13,228)
Total	9	$ (4,103)

Operating revenues were impacted by refunds to customers of fuel cost savings associated with the resolution of a coal contract dispute. Refer to Note 3 of the Notes to Financial Statements for further discussion. Operating revenues, before the impact of the refunds to customers, increased $9.1 million (6%) primarily as a result of a 9% increase in kilowatt-hour sales. The increase in kilowatt-hour sales is primarily attributable to increases in industrial and off-system sales partially offset by a decrease in residential sales. The increase in industrial sales reflects the continued improvement of the manufacturing segment of the service area. About 40% 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 at neighboring utilities. The decrease in residential sales resulted from the mild weather experienced during the third quarter of 1994.

Fuel expense was also impacted by the previously mentioned refunds to customers. Refer to Note 3 of the Notes to Financial Statements for further discussion. Fuel expense, excluding the effect of the refunds to customers, increased $2.6 million (5%). This increase reflects a 4% increase in tons of coal consumed and a 1% increase in the average price per ton of coal consumed.

Purchased power expense increased by $4.9 million (46%) due to

higher demand costs ($3.6 million) and greater kilowatt-hour purchases ($1.3 million). The increase in demand costs is primarily due to the permanent increase in capacity entitlement, effective January 1994, from Electric Energy, Inc. (EEI). The increased kilowatt-hour purchases were primarily from EEI. A contract between Kentucky Utilities and EEI allows Kentucky Utilities to purchase, on an economic basis, 20% of the available capacity from a 1,000-megawatt generating station owned by EEI. Maintenance expenses increased $2.5 million (19%), primarily due to the timing of scheduled maintenance at Kentucky Utilities' generating stations.

Nine Months ended September 30, 1994, compared to the Nine Months ended September 30, 1993

	Increase (Decrease) From Prior Year Nine Months Ended Sept. 30, 1994	
	kWh (%)	Revenues (000's)
Residential	2	$ 4,790
Commercial	3	3,698
Industrial	8	6,591
Mine Power & Public Authorities	5	3,170
Total Retail Sales	4	18,249
Other Electric Utilities	52	17,890
Miscellaneous Revenues & Other	-	297
Total Before Refund	11	36,436
Provision for Refund - Litigation Settlement	-	(14,130)
Total	11	$ 22,306

Operating revenues were impacted by refunds to customers of fuel cost savings associated with the resolution of a coal contract dispute. Refer to Note 3 of the Notes to Financial Statements for further discussion. Operating revenues, before the impact of the refunds to customers, increased $36.4 million (8%) primarily as a result of an 11% 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 increase in industrial sales reflects the continued improvement of the manufacturing segment of the service area. About 40% of the increase in industrial sales is attributable to greater sales to TMM due its to recent plant expansion. The increase in off-system sales is attributable to an increase in demand for power due to maintenance programs at neighboring utilities and to warm weather during the second quarter of 1994.

Fuel expense was also impacted by the previously mentioned refunds to customers. Refer to Note 3 of the Notes to Financial Statements for further discussion. Fuel expense, excluding the effect of the refunds to customers, increased $5.7 million (4%). This increase reflects a 3% increase in the average price per ton of coal consumed and a 1% increase in the tons of coal consumed.

Purchased power expense increased $21.7 million (83%) due to higher demand costs ($10 million) and to greater kilowatt-hour purchases ($11.7 million). The increase in demand costs is

primarily due to the permanent increase in capacity entitlement, effective January 1994, from EEI. The increased kilowatt-hour purchases were primarily from EEI.

Maintenance expenses increased $9.4 million (24%). 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.

PART II. OTHER INFORMATION

KENTUCKY UTILITIES COMPANY

ITEM 1. LEGAL PROCEEDINGS

By order of July 19, 1994, the Kentucky Public Service Commission (PSC) approved Kentucky Utilities' plan for environmental surcharge adjustments to customer billings beginning in August 1994. The surcharge, authorized by a Kentucky statute enacted in 1992, is designed to recover certain ongoing operating and capital costs, not already included in existing rates, related to compliance with federal, state or local environmental requirements associated with the production of energy from coal, including the 1990 Clean Air Act Amendments. Surcharge billings are subject to periodic PSC review to confirm the level of environmental expenditures and to reconcile previous surcharge billings with actual costs.

Two requests for rehearing were filed by interveners before the PSC. The PSC denied those requests for rehearings.

On September 9, 1994, the Attorney General of the Commonwealth of Kentucky (Attorney General) filed an action in the Franklin County (KY) Circuit Court challenging the constitutionality of the Kentucky surcharge statute and seeking to vacate the PSC order of July 19, 1994 on the ground, among others, that the environmental surcharge approved by the PSC will deprive Kentucky Utilities' customers of their property without due process of law. Management believes that, based on its review of the circumstances, the surcharge statute is constitutional and it is

probable that the PSC order of July 19, 1994 approving the surcharge will be upheld. In the remote occurrence that the statute is declared unconstitutional, amounts collected pursuant to the PSC order may be subject to refund.

By motion filed November 8, 1994, the Attorney General and two interveners are seeking to have surcharge collections deposited with the court pending the outcome of the litigation. Kentucky Utilities believes that the motion is without merit and should be denied.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

The following exhibits are filed as part of this report:

Exhibit Number	Description
12	Computation of Ratio of Earnings to Fixed Charges.
27	Financial Data Schedule (required for electronic filing only in accordance with Item 601(c)(1) of Regulation S-K.)

(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 November 9, 1994	*/s/ John T. Newton* *John T. Newton* *Chairman of the Board and Chief Executive Officer*
Date November 9, 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 Sept. 30, 1994 (in thousands, except ratio)
Earnings	
Net Income	$ 78,983
Adjustments	
Fixed charges	32,965
Income taxes	
Current Federal	36,728
Current State	9,660
Deferred Federal-Net	212
Deferred State-Net	(548)
Deferred investment tax credit-Net	(92)
Income taxes included in Other Income and Deductions	
Current Federal and State	1,829
Deferred Federal and State	(661)
Amortization of investment tax credit	(4,024)
Undistributed income of Electric Energy, Inc.	(80)
Total Earnings	$154,972
Fixed Charges	
Interest on long-term debt	$ 31,293
Other interest charges	1,672
Total Fixed Charges	$ 32,965
Ratio of Earnings to Fixed Charges	4.70

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

ARTICLE UT

This schedule contains summary financial information extracted from the Balance Sheet as of September 30, 1994 and the Income Statement for the period ended September 30, 1994 and is qualified in its entirety by reference to such Form 10-Q Quarterly Report.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1994
PERIOD END	SEP 30 1994
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	1,363,924
OTHER PROPERTY AND INVEST	13,103
TOTAL CURRENT ASSETS	136,614
TOTAL DEFERRED CHARGES	75,926
OTHER ASSETS	2,098
TOTAL ASSETS	1,591,665
COMMON	308,140
CAPITAL SURPLUS PAID IN	(594)
RETAINED EARNINGS	259,577
TOTAL COMMON STOCKHOLDERS EQ	567,123
PREFERRED MANDATORY	0
PREFERRED	40,000
LONG TERM DEBT NET	442,015
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	59,100
LONG TERM DEBT CURRENT PORT	21
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	483,406
TOT CAPITALIZATION AND LIAB	1,591,665
GROSS OPERATING REVENUE	477,066 [1]
INCOME TAX EXPENSE	36,872
OTHER OPERATING EXPENSES	359,843
TOTAL OPERATING EXPENSES	396,715
OPERATING INCOME LOSS	80,351
OTHER INCOME NET	8,040
INCOME BEFORE INTEREST EXPEN	88,391
TOTAL INTEREST EXPENSE	24,932
NET INCOME	63,459
PREFERRED STOCK DIVIDENDS	1,820
EARNINGS AVAILABLE FOR COMM	61,639
COMMON STOCK DIVIDENDS	46,232
TOTAL INTEREST ON BONDS	23,959
CASH FLOW OPERATIONS	116,496
EPS PRIMARY	0 [2]
EPS DILUTED	0 [2]

[1] See Note 3 of the Notes to Financial Statements.

[2] All outstanding common stock of Kentucky Utilities Company is held by its parent company, KU Energy Corporation. Therefore, earnings per share is not applicable.

End of Filing

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