an e·on company

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager - Regulatory Affairs
T 502-627-3780
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Ms. Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

VIA UPS OVERNIGHT DELIVERY

June 4, 2007

**RE: Petition of *Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*
Docket No. 07-00043**

Dear Ms. Kyle:

Pursuant to Ordering Paragraph No. 3 of the Commission's Order in the aforementioned proceeding, Kentucky Utilities Company ("KU") hereby files an original and three (3) copies of all correspondence submitted to the Kentucky Public Service Commission ("KPSC") and the Virginia State Corporation Commission ("VSCC) under said Order.

On February 27, 2007 KU filed responses to KPSC Staff Date Requests. Also, on April 20, 2007, pursuant to the KPSC Order Authorizing the Issuance of Securities and the Assumption of Obligations, a report setting forth the loan provisions of $75,000,000 borrowing from Fidelia Corporation was provided.

Additionally, KU, d/b/a Old Dominion Power ("ODP") filed pursuant to the VSCC Order Authorizing the Issuance of Securities and the Assumption of Obligations, a Preliminary Report of Action as stipulated in the order. Preliminary Reports of Action are due 60 days after the end of each calendar quarter with a Final Report of Action to be filed on or before March 31, 2008.

Attached are copies of all current correspondence submitted to the KPSC and VSCC. Please confirm your receipt of this information by placing the File Stamp of your Office on the enclosed additional copy. Should you have any questions regarding this transaction or this information, please contact me or Don Harris at (502)627-2021.

Sincerely,

Rick E. Lovekamp

cc: Eddie Roberson – Tennessee Regulatory Authority
Pat Miller – Tennessee Regulatory Authority
Dan Arbough
Kendrick Riggs – Stoll · Keenon · Ogden

KU
an e-on company

Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

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February 27, 2007

Re: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations – *Case No. 2007-00024*

Dear Ms. O'Donnell:

Enclosed for filing please find and accept for filing the original and five copies of Kentucky Utilities Company's Response to the Commision Staff's First Data Request dated February 16, 2007, in the aforementioned proceeding.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Kendrick R. Riggs
John Wade Hendricks

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES AND THE ASSUMPTION OF OBLIGATIONS	))))	CASE NO. 2007-00024

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
FIRST DATA REQUEST OF COMMISSION STAFF
DATED FEBRUARY 16, 2007

FILED: FEBRUARY 28, 2007

KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
Dated February 16, 2007

Case No. 2007-00024

Question No. 1

Witness: Daniel K. Arbough

Q-1. Given the request for authorization to issue securities and assume obligations equaling $295 million, cited on page 6 of the original application:

a. Provide a breakdown of the $295 million total amount for which authority is requested that identifies each component expenditure with its associated cost.

b. Why does the $295 million amount for which authority is requested differ from the sum of the projected costs, cited in the original application?

c. Is the reference to the estimated costs associated with the Ghent and Trimble construction and the required contribution to the pension plan an indication that the requested $295 million would be spent in those areas?

A-1. a. As noted in Kentucky Utilities Company (KU) Application, KU funds its capital projects through numerous sources of capital, including the form of debt that is the subject of KU's Application. KU does not assign specific financing to any particular project or use, and does not project finance capital projects. Below is a summary of KU's anticipated 2007 budget for capital expenditures for its Distribution and Transmission Systems, and for the pollution control facilities at the Ghent Generating Station and for construction costs at Trimble County Unit No. 2.

KENTUCKY UTILITIES
2007 CAPITAL BUDGET for SELECTED EXPENDITURES
(in 000's)

Ghent Unit No. 2 SCR	$	25,000
Ghent Unit No. 2 and 3 FGD Systems	$	197,342
Trimble County 2	$	247,387
Transmission	$	21,867
Distribution	$	57,801

b. For the reasons discussed in (a) above, the amount for which authority is requested differs from the sum of the projected costs. The mix of debt and equity used to finance projects will be determined so as to allow KU to maintain its strong investment-grade credit rating and to maintain its operations and provide service to the public. In addition to debt, KU expects to use both internally generated funds and equity contributions.

c. The reference to the estimated costs associated with the Ghent and Trimble construction and the required contribution to the pension plan were cited as general reasons for KU's need for additional debt financing, rather than projects for which financing will be specifically incurred.

KU

an e-on company

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

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April 20, 2007

RE: The application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations *(Case No. 2007-00024)*

Dear Ms. O'Donnell:

Pursuant to Ordering Paragraph No. 8 of the Commission's Order in the aforementioned proceeding, Kentucky Utilities Company ("KU") hereby files an original and three (3) copies of information related to an issuance under said Order.

On March 30, 2007, KU borrowed $75 million from Fidelia Corporation in accordance with the order issued March 19, 2007 in the above-referenced case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelia Corporation
Amount:	$75 million
Maturity Date:	March 30, 2037
Interest Rate:	5.86%
Price Paid:	100%
Proceeds:	$75 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	March 30 and September 30 commencing September 30, 2007

The proceeds of the loan were used to fund capital projects described in the application.

The interest rate was set using the lowest rate quoted to KU at 1.06% above the yield on the thirty-year treasury bond (4.80%). The supporting price indications from the investment banks are attached along with a copy of a page from Bloomberg showing the yield on the treasury bond. The lowest rate quoted to KU by the investment banks was lower than the average bid quoted to E.ON A.G. Once again, the supporting price indications are attached. The bids are summarized in the table below:

	KU Pricing	**E.ON AG Pricing**
Low bid above thirty-year treasury	1.06%	
Thirty-year treasury rate	4.80%	
All-in cost	5.86%	
Average bid above thirty-year treasury		1.21%
Thirty-year treasury rate		4.80%
All-in cost		6.01%

The 106 basis point spread is comparable with recent ten-year debt issuances from other energy companies with a similar credit rating. (See table below along with attached support documentation).

Issuer	**Moody's / S&P**	**Maturity**	**Spread**
Central Hudson Gas & Electric	A2 / A	03/23/2037	+ 108 bps
Connecticut Light & Power	A3 / BBB+	03/01/2037	+ 110 bps
PECO Energy	A2 / A-	03/15/2037	+ 102 bps

Please confirm your receipt of this information by placing the File Stamp of your Office on the enclosed additional copy and returning it in the envelope provided. Should you have any questions regarding this transaction or this information, please contact me or Don Harris at (502)627-2021.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Dan Arbough
Kendrick Riggs – Stoll · Keenon · Ogden

U.S. debt capital markets update
Utility & Pipeline sectors
For distribution to issuer clients only

New York
Week ending
Mar 16, 2007

Peter Madonia, MD (212) 834-3808
Anisha Mehra, VP (212) 834-4918
Heather Towner, VP (212) 834-4871
Steve Leamer, Assoc (212) 834-4084
Ed Suvada, Analyst (212) 834-3311

Sarah Chessin, VP-Hybrids (212) 834-4073

Economic and Treasury market update

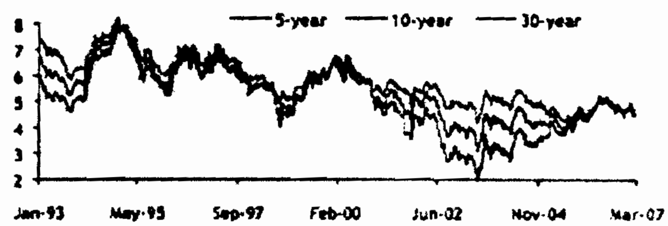
- Last week, equity markets dropped, Treasury yields fell, credit spreads widened, and volatility increased marginally
  - The Treasury market caught a bid last Tuesday as world equity markets sold-off on the back of renewed concerns around the US subprime market stemming from potential bankruptcy of New Century Financial, the second largest subprime lender
- Economic data pointed to high inflation, leaving the Fed biased toward fighting inflation risks
  - Core CPI inflation was high in February, increasing 0.2%, the second strong reading this year following a series of lower prints in 4Q06
  - Producer prices were also strong in February, as the core PPI increased 0.4%
  - Retail sales were soft in February, rising only 0.1%; excluding motor vehicles, retail sales fell 0.1%. The weakness was apparent in several categories, and there is some evidence that miserable February weather may have depressed sales
  - Industrial production rose a solid 1.0% in February, as unusually cold weather boosted utility output; manufacturing output rose a respectable 0.4%
- Recently fixed income and equity markets have been highly correlated, with weakness in equities inducing rallies in the bond markets as investors seek the relative safety of Treasuries
  - This renewed flight-to-quality trade last Tuesday, though less pronounced than two weeks ago, resulted in Treasury yields falling 3-8 bps and the curve 4 bps steeper since the prior Friday
- With a light economic calendar slated for this week, Wednesday's FOMC statement will likely be the focus of the market

JPMorgan interest rate forecast (%)

	16-Mar-07	2Q 07	3Q 07	4Q 07
Fed funds rate	5.25%	5.25%	5.25%	5.75%
3m LIBOR	5.35%	5.40%	5.65%	6.00%
2yr UST	4.59%	4.90%	5.10%	5.45%
5yr UST	4.50%	4.75%	4.90%	5.25%
10yr UST	4.54%	4.75%	4.85%	5.10%
30yr UST*	4.71%	4.80%	4.85%	5.10%
2s/10s curve	-5 bps	-15 bps	-25 bps	-35 bps
10s/30s curve	17 bps	5 bps	Flat	Flat

JPMorgan forecast as of 3/16/07; forecasts are for quarter end
* 4.500% bonds due Feb-2036

Historical treasury rates (%)



Source: Bloomberg

Investment grade primary and secondary market update

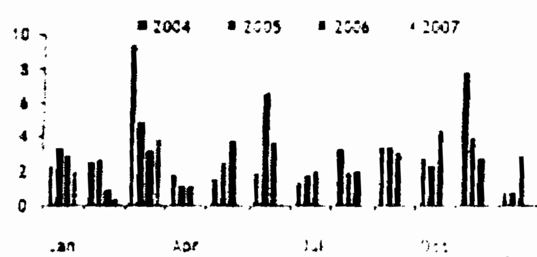
- The new issue market priced $23bn of supply last week, bringing March month-to-date supply to $56bn
  - With the sustained low interest rate environment, investor demand for yieldier credits have outpaced higher rated issues and this trend is expected to continue
- JPMorgan was an active participant in last week's calendar, serving as bookrunner on some of the week's most notable offerings
  - **PPL Capital Funding (Baa3/BB+)** issued $500mm (upsized from $400mm) 60nc10 step-up hybrid securities at T+220 bps. This transaction marks the first corporate hybrid since November 2006 (**See case study for additional details**)
  - JPMorgan acted as Sole Structuring Advisor and Joint Bookrunner on **XL Capital Ltd's (Baa2/BBB)** $1bn, "Basket D" perpetual non-call 10 step-up preferred stock offering, which priced at T+200 bps
  - **Canadian Natural Resources (Baa2/BBB)** priced $2.2bn of a 10- and 30-year (upsized from $1.75bn) at T+118 and T+158. The company conducted a non-deal roadshow in January and met with 30 accounts
- Since the initial equity freefall on Tuesday, February 27, investment grade credit spreads have widened approximately 10 bps, erasing all of the spread gains from the past three months' rally
  - Although all credit asset classes have suffered, high grade seems to be bearing the brunt of the pain due to its heavy exposure to financial institutions. In response, investors remain cautious and secondary desks are long
- In light of the recent subprime news, there are growing concerns that leakage into the broader ABS/CDO markets may occur
  - However, technical demand for credit exposure continues to outweigh supply, corporate earnings remain strong, and investors are still flush with cash creating an opportunistic issuing environment
- JPMorgan believes that this period of volatility is likely to continue as long as there is a divided opinion regarding the magnitude and resulting financial impact of the subprime mortgage problem
  - But perhaps most importantly, JPMorgan does not believe that the subprime issue will be so great as to threaten the viability of the current economic expansion

Selected recent investment grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
3/12	HONEYWELL INTERNATIONAL	A2/A	400	[illegible]	03/15/2017	77
3/12	HONEYWELL INTERNATIONAL	A2/A	600	5.700	03/15/2037	132
3/12	MCDONALDS CORP	A2/A	[illegible]	[illegible]	03/15/2017	74
3/12	XL CAPITAL	Baa2/BBB	1,000	[illegible]	PERP NC10	200
3/12	CANADIAN NATIONAL RESOURCES	Baa2/BBB	1,100	5.700	05/15/2017	118
3/12	CANADIAN NATIONAL RESOURCES	Baa2/BBB	1,100	6.250	03/15/2037	158
3/12	PECO ENERGY	A2/A-	175	5.700	03/15/2037	132
3/13	TXU ENERGY	Baa2/BB	1,000	FRN	09/16/2008	3ML+50
3/13	TXU ELECTRIC DELIVERY	Baa2/BBB-	500	FRN	09/16/2008	3ML+37.5
3/14	EL PASO ENERGY	Baa3/B+	500	5.900	04/01/2017	140
3/15	PPL CAPITAL FUNDING	Baa3/BB+	500	6.700	60NC10	220
3/16	COMMONWEALTH EDISON (TAP)	Baa2/BBB	100	5.900	03/15/2036	147

Shading indicates Utility and Pipeline issuance

Utility and Pipeline new issue supply ($Bn)



JPMorgan

U.S. debt capital markets update
Utility & Pipeline sectors
For distribution to issuer clients only

New York
Week ending
Mar 23, 2007

Peter Madonia, MD (212) 834-3808
Anisha Mehra, VP (212) 834-4918
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Steve Leamer, Assoc (212) 834-4084
Ed Suvada, Analyst (212) 834-3311
Sarah Chessin, VP Hybrids (212) 834-4073

Economic and Treasury market update

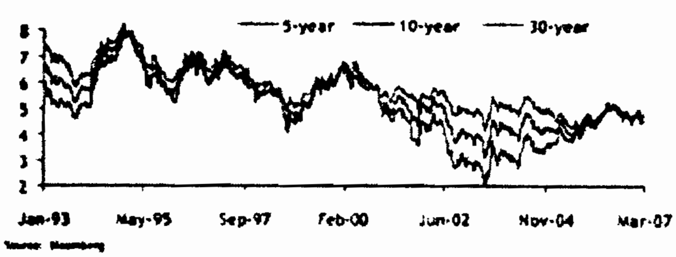
- Last week's FOMC statement was more dovish than expected as the Fed maintained rates at 5.25% and revealed the committee's shift toward a more neutral state
  - The Fed omitted the phrase "the extent and timing of any additional firming" and replaced it with "future policy adjustments" would depend on the outlook for inflation and growth
  - Inflation remains the focal point for the FOMC with its predominant concern being "that inflation will fail to moderate as expected"
- The release of the Fed decision triggered an immediate 4-5bp rally in 10- and 30-yr benchmark Treasury yields
  - Overall, 10- and 30-yr benchmark yields finished the week 7bp and 11bp higher, respectively, with the inversion between the 2s/10s curve reversing and the 2s/30s curve steepening 10bp
  - Markets revised their expectations and are pricing in 40bp of easing during 2007
- JPMorgan believes the market is overpricing a Fed ease as high frequency economic data continues to highlight solid job growth and stabilization in the housing market and as neither equity nor credit markets appear overly concerned about the possibility of a recession
  - February nonfarm payroll growth and January revisions were up over 45,000 jobs versus the consensus forecast. Average hourly earnings remained near five-year highs at 4.1%, while hours worked fell slightly
  - Both wholesale and consumer prices remained elevated last month. While CPI rose slightly in February due to higher food and energy costs, core prices remained at a 2.7% annual growth rate

JPMorgan interest rate forecast (%)

	23-Mar-07	2Q 07	3Q 07	4Q 07
Fed funds rate	5.25%	5.25%	5.25%	5.75%
3m LIBOR	5.35%	5.40%	5.65%	6.00%
2yr UST	4.60%	4.90%	5.10%	5.45%
5yr UST	4.51%	4.75%	4.90%	5.25%
10yr UST	4.61%	4.75%	4.85%	5.10%
30yr UST*	4.82%	4.80%	4.85%	5.10%
2s/10s curve	[illegible] bps	-15 bps	-25 bps	-35 bps
10s/30s curve	21 bps	5 bps	Flat	Flat

JPMorgan forecast as of 3/23/07; forecasts are for quarter end
** 4.500% bonds due Feb-2036*

Historical treasury rates (%)



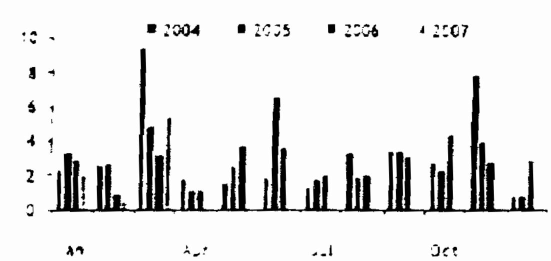
Investment grade primary and secondary market update

- Investment grade new issuance totaled over $20bn last week, pushing March's current monthly supply total to a heavy $80bn
  - Floating rate notes and financial institutions sector supply continues to remain robust year-to-date; corporate issuers remain opportunistic and monitor market conditions given the recent volatility as corporate sector supply continues to be noticeably light (14% lower YoY)
  - 5 utility issuers tapped the market for over $1Bn last week, including an extendible offering, three 30-yr tranches, and two 10-yr tranches
  - JPMorgan served as bookrunner Wyeth's (A3/A) $2.5bn offering, which included a $500MM 10-year and a $2Bn 30 year, pricing at +89bp and +120bp, respectively. The offering was announced as $1.5bn of 30-year bonds; the book grew at a steady pace and also received a reverse inquiry for a 10-year tranche, enabling the company to upsize the offering by $1Bn and add a 10-year tranche
  - Primary supply is expected to remain robust as JPMorgan expects a very healthy calendar in coming weeks
- Although the equity markets rallied following the Fed's policymaking climb-down, the credit markets remained relatively muted last week with high grade corporate bond spreads finishing unchanged to just slightly wider
- JPMorgan believes that a cautious stance will be maintained for investors in the high grade asset class, as in the very near term, spreads may strengthen modestly as market participants continue to price in a higher probability of an ease in interest rates...
  - ...However, the prospect of interest rate policy uncertainty, real deceleration in corporate earnings and diminished investor sentiment suggest that there are significant risks of spread widening
  - High grade credit spreads are also unlikely to enjoy a full retracement of the recent widening
- The recent JPMorgan Credit Client Survey depicted investors having less weighting towards corporate bonds and a negative spread outlook
- Given the robust new issue calendar, investors are expected to add credit exposure through new issues rather than the secondary market

Selected recent investment grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
[illegible]	SHELL INTERNATIONAL FINANCE	Aa1/AA	500	4.950	03/22/2012	48
[illegible]	SHELL INTERNATIONAL FINANCE	Aa1/AA	750	5.200	03/22/2017	68
3/19	[illegible] CORP	A1/A+	500	4.750	03/22/2011	45
3/19	EMPIRE DISTRICT ELECTRIC	Baa1/BBB+	80	5.875	04/01/2037	115
3/20	CONNECTICUT LIGHT & POWER	A3/BBB+	150	5.375	03/01/2017	87
3/20	CONNECTICUT LIGHT & POWER	A3/BBB+	150	5.750	03/01/2037	110
3/20	CENTRAL HUDSON GAS & ELECTRIC	A2/A	33	5.804	03/23/2037	138
3/20	SOUTHERN CO	A3/A-	400	FRN	1/5 Extend	+1,2,3,4,5
3/22	CLEVELAND ELECTRIC ILLUM	Baa3/BBB-	250	5.700	04/01/2017	112
[illegible]	WYETH	A3/A	500	5.450	04/01/2017	89
[illegible]	WYETH	A3/A	2000	5.950	04/01/2037	120

Utility and Pipeline new issue supply ($Bn)



GRAB   Govt YAS

Screen Printed

YIELD & SPREAD ANALYSIS

US TREASURY N/B   T 4 ¾ 02/15/37   99-08 / 99-09   (4.80 / 4.80) BGN @14:49

SETTLE 3/29/07   FACE AMT   PROCEEDS   998,929.55

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1) YA            YIELDS           2) YASD  RISK &   T 4 ¾ 02/15/37
PRICE  99-9        No Financing            HEDGE     Workout            HEDGE BOND
YIELD   4.795 Wst                          RATIOS    02/15/37  OAS       OAS
SPRD     0.00 bp  yld-decimals             15.74     15.51     15.51
                                           15.713    15.882    15.882
        versus                              3.63      3.70      3.70
30yr T 4 ¾ 02/15/37           BENCHMARK
PRICE  99-9            Save   Delete    Workout HEDGE Amount:1,000 M
YIELD   4.795 %                             OAS HEDGE Amount:1,000 M
   Yields are: Semi-Annual
3) OAS         SPREADS                          FINANCING
OAS:   -0.0 CRV# CMT    VOL      Opt
OAS:        CRV#                            Int Income
       -55.1         -57.5   11) History    Fin Cost                      -12.43
CRV#  I52  US $ SWAP 30/360                 Amortiz                       -12.96
ISPRD -54.7  DSPRD                          Forwd Prc
 Yield Curve: I25  US TREASURY ACTIVES      Prc Drop
+ 0    v 29.9yr ( 4.795 %)  INTERPOLATED    Drop (bp)
+ 34   v 5yr  ( 4.46)  T 4 ⅝ 02/29/12       Accrued Interest /100   0.551105
+ 21   v 10yr ( 4.58)  T 4 ⅝ 02/15/17       Number Of Days Accrued  42
+ 0    v 30yr ( 4.80)  T 4 ¾ 02/15/37
```

an e·on company

Mr. Joel Peck, Clerk
Virginia State Corporation Commission
Document Control Center
1300 East Main Street
Tyler Building 1F
Richmond, Virginia 23218

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rick.lovekamp@eon-us.com

VIA UPS OVERNIGHT DELIVERY

April 10, 2007

**RE: Kentucky Utilities Company (*Case No. PUE-2007-00007)*
Preliminary Report of Action**

Dear Mr. Peck:

Pursuant to the Commission's Order, Ordering Paragraph No. 3, dated March 1, 2007, in the aforementioned proceeding, Kentucky Utilities Company, d/b/a Old Dominion Power Company ("KU/ODP or "the Company") hereby submits a Preliminary Report of Action.

On March 30, 2007 KU/ODP borrowed $75 million from Fidelia Corporation in accordance with the order issued March 1, 2007 in the above-referenced case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelia Corporation
Amount:	$75 million
Maturity Date:	March 30, 2037
Interest Rate:	5.86%
Price Paid:	100%
Proceeds:	$75 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	March 30 and September 30 commencing September 30, 2007

The proceeds of the loan were used to fund capital projects described in application. KU elected to issue a thirty-year loan due to the slope of the yield curve currently with long-term treasury rates within .30% of short-term rates.

The interest rate was set using the lowest rate quoted to KU at 1.06% above the yield on the thirty-year treasury bond (4.80%). The supporting price indications from the investment banks are attached along with a copy of a page from Bloomberg showing the yield on the treasury bond. The lowest rate quoted to KU by the investment banks was lower than the average bid quoted to E.ON A.G. Once again, the supporting price indications are attached. The bids are summarized in the table below:

	KU Pricing	E.ON AG Pricing
Low bid above thirty-year treasury	1.06%	
Thirty-year treasury rate	4.80%	
All-in cost	5.86%	
Average bid above thirty-year treasury		1.21%
Thirty-year treasury rate		4.80%
All-in cost		6.01%

The 106 basis point spread is comparable with recent thirty-year debt issuances from other energy companies with a similar credit rating. (See table below along with attached support documentation).

Issuer	Moody's / S&P	Maturity	Spread
Central Hudson Gas & Electric	A2 / A	03/23/2037	+ 108 bps
Connecticut Light & Power	A3 / BBB+	03/01/2037	+ 110 bps
PECO Energy	A2 / A-	03/15/2037	+ 102 bps

Please confirm your receipt of this information by placing the File Stamp of your Office on the enclosed additional copy and returning it in the enclosed self-addressed, stamped envelope.

Should you have any questions regarding the information filed herewith, please contact me or Don Harris at (502) 627-2021.

Sincerely,

Rick E. Lovekamp

cc: Dan Arbough
Kendrick Riggs – Stoll · Keenon · Ogden

U.S. debt capital markets update
Utility & Pipeline sectors
For distribution to issuer clients only

New York
Week ending
Mar 16, 2007

Peter Macoma, MD (212) 834-3808
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Economic and Treasury market update

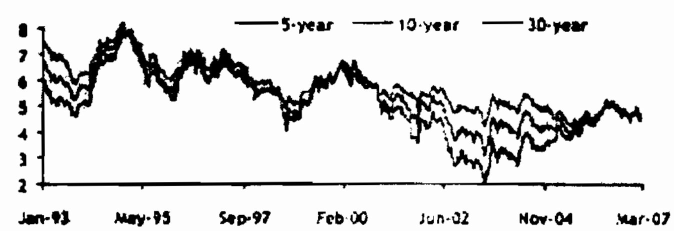
- Last week, equity markets dropped, Treasury yields fell, credit spreads widened, and volatility increased marginally
  - The Treasury market caught a bid last Tuesday as world equity markets sold-off on the back of renewed concerns around the US subprime market stemming from potential bankruptcy of New Century Financial, the second largest subprime lender
- Economic data pointed to high inflation, leaving the Fed biased toward fighting inflation risks
  - Core CPI inflation was high in February, increasing 0.2%, the second strong reading this year following a series of lower prints in 4Q06
  - Producer prices were also strong in February, as the core PPI increased 0.4%
  - Retail sales were soft in February, rising only 0.1%; excluding motor vehicles, retail sales fell 0.1%. The weakness was apparent in several categories, and there is some evidence that miserable February weather may have depressed sales
  - Industrial production rose a solid 1.0% in February, as unusually cold weather boosted utility output; manufacturing output rose a respectable 0.4%
- Recently fixed income and equity markets have been highly correlated, with weakness in equities inducing rallies in the bond markets as investors seek the relative safety of Treasuries
  - This renewed flight-to-quality trade last Tuesday, though less pronounced than two weeks ago, resulted in Treasury yields falling 3-8 bps and the curve 4 bps steeper since the prior Friday
- With a light economic calendar slated for this week, Wednesday's FOMC statement will likely be the focus of the market

JPMorgan interest rate forecast (%)

	16-Mar-07	2Q 07	3Q 07	4Q 07
Fed funds rate	5.25%	5.25%	5.25%	5.75%
3m LIBOR	5.35%	5.40%	5.65%	6.00%
2yr UST	4.59%	4.90%	5.10%	5.45%
5yr UST	4.50%	4.75%	4.90%	5.25%
10yr UST	4.54%	4.75%	4.85%	5.10%
30yr UST*	4.71%	4.80%	4.85%	5.10%
2s/10s curve	-5 bps	-15 bps	-25 bps	-35 bps
10s/30s curve	17 bps	5 bps	Flat	Flat

JPMorgan forecast as of 3/16/07. Forecasts are for quarter-end
* 4.500% bonds due Feb-2036

Historical treasury rates (%)



Source: Bloomberg

Investment grade primary and secondary market update

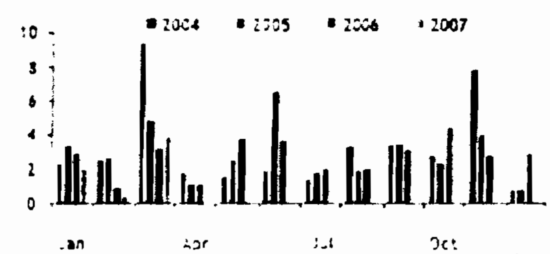
- The new issue market priced $23bn of supply last week, bringing March month-to-date supply to $56bn
  - With the sustained low interest rate environment, investor demand for yieldier credits have outpaced higher rated issues and this trend is expected to continue
- JPMorgan was an active participant in last week's calendar, serving as bookrunner on some of the week's most notable offerings
  - PPL Capital Funding (Baa3/BB+) issued $500mm (upsized from $400mm) 60nc10 step-up hybrid securities at T+220 bps. This transaction marks the first corporate hybrid since November 2006 (See case study for additional details)
  - JPMorgan acted as Sole Structuring Advisor and Joint Bookrunner on XL Capital Ltd's (Baa2/BBB) $1bn, "Basket D" perpetual non-call 10 step-up preferred stock offering, which priced at T+200 bps
  - Canadian Natural Resources (Baa2/BBB) priced $2.2bn of a 10- and 30-year (upsized from $1.75bn) at T+118 and T+158. The company conducted a non-deal roadshow in January and met with 30 accounts
- Since the initial equity freefall on Tuesday, February 27, investment grade credit spreads have widened approximately 10 bps, erasing all of the spread gains from the past three months' rally
  - Although all credit asset classes have suffered, high grade seems to be bearing the brunt of the pain due to its heavy exposure to financial institutions. In response, investors remain cautious and secondary desks are long
- In light of the recent subprime news, there are growing concerns that leakage into the broader ABS/CDO markets may occur
  - However, technical demand for credit exposure continues to outweigh supply, corporate earnings remain strong, and investors are still flush with cash creating an opportunistic issuing environment
- JPMorgan believes that this period of volatility is likely to continue as long as there is a divided opinion regarding the magnitude and resulting financial impact of the subprime mortgage problem
  - But perhaps most importantly, JPMorgan does not believe that the subprime issue will be so great as to threaten the viability of the current economic expansion

Selected recent investment grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
3/12	HONEYWELL INTERNATIONAL	A2/A	400	5.400	03/15/2017	77
3/12	HONEYWELL INTERNATIONAL	A2/A	600	5.700	03/15/2037	103
3/12	McDONALD'S CORP	A3/A	400	5.300	03/15/2017	76
3/12	XL CAPITAL	Baa2/BBB	1,000	6.500	PERP NC10	200
3/12	CANADIAN NATIONAL RESOURCES	Baa2/BBB	1,100	5.700	05/15/2017	118
3/12	CANADIAN NATIONAL RESOURCES	Baa2/BBB	1,100	6.250	03/15/2037	158
3/12	PECO ENERGY	A2/A-	175	5.700	03/15/2037	132
3/13	TXU ENERGY	Baa2/BB	1,000	FRN	09/16/2008	3ML+50
3/13	TXU ELECTRIC DELIVERY	Baa2/BBB-	800	FRN	09/16/2008	3ML+37.5
3/14	EL PASO ENERGY	Baa3/B+	500	5.900	04/01/2017	140
3/15	PPL CAPITAL FUNDING	Baa3/BB+	500	6.700	60NC10	220
3/16	COMMONWEALTH EDISON CAP.	Baa2/BBB	120	5.900	03/15/2036	147

Source: [illegible]

Utility and Pipeline new issue supply ($Bn)



JPMorgan

U.S. debt capital markets update
Utility & Pipeline sectors
For distribution to issuer clients only

New York
Week ending
Mar 23, 2007

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Economic and Treasury market update

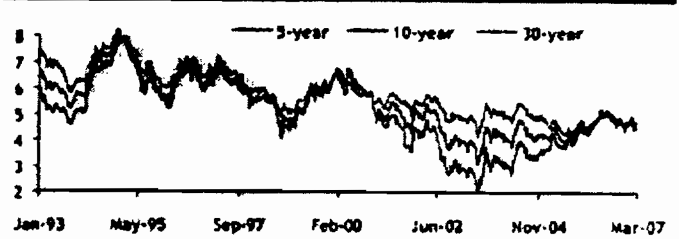
- Last week's FOMC statement was more dovish than expected as the Fed maintained rates at 5.25% and revealed the committee's shift toward a more neutral state
  - The Fed omitted the phrase "the extent and timing of any additional firming" and replaced it with "future policy adjustments" would depend on the outlook for inflation and growth
  - Inflation remains the focal point for the FOMC with its predominant concern being "that inflation will fail to moderate as expected"
- The release of the Fed decision triggered an immediate 4-5bp rally in 10- and 30-yr benchmark Treasury yields
  - Overall, 10- and 30-yr benchmark yields finished the week 7bp and 11bp higher, respectively, with the inversion between the 2s/10s curve reversing and the 2s/30s curve steepening 10bp
  - Markets revised their expectations and are pricing in 40bp of easing during 2007
- JPMorgan believes the market is overpricing a Fed ease as high frequency economic data continues to highlight solid job growth and stabilization in the housing market and as neither equity nor credit markets appear overly concerned about the possibility of a recession
  - February nonfarm payroll growth and January revisions were up over 45,000 jobs versus the consensus forecast. Average hourly earnings remained near five-year highs at 4.1%, while hours worked fell slightly
  - Both wholesale and consumer prices remained elevated last month. While CPI rose slightly in February due to higher food and energy costs, core prices remained at a 2.7% annual growth rate

JPMorgan interest rate forecast (%)

	23-Mar-07	2Q 07	3Q 07	4Q 07
Fed funds rate	5.25%	5.25%	5.25%	5.75%
1m LIBOR	5.35%	5.40%	5.65%	6.00%
2yr UST	4.60%	4.90%	5.10%	5.45%
5yr UST	4.51%	4.75%	4.90%	5.25%
10yr UST	4.61%	4.75%	4.85%	5.10%
30yr UST*	4.82%	4.80%	4.85%	5.10%
2s/10s curve	1 bps	-15 bps	-25 bps	-35 bps
10s/30s curve	21 bps	5 bps	Flat	Flat

JPMorgan forecast as of 3/23/07; forecasts are for quarter-end
* 4.500% bonds due Feb-2036

Historical treasury rates (%)



Source: Bloomberg

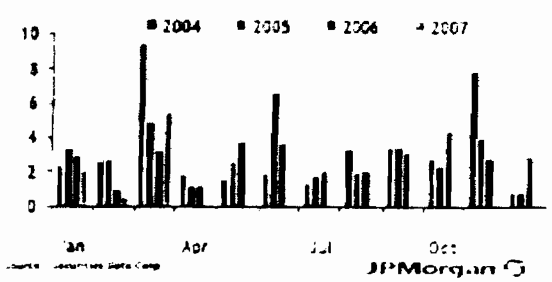
Investment grade primary and secondary market update

- Investment grade new issuance totaled over $20bn last week, pushing March's current monthly supply total to a heavy $80bn
  - Floating rate notes and financial institutions sector supply continues to remain robust year-to-date; corporate issuers remain opportunistic and monitor market conditions given the recent volatility as corporate sector supply continues to be noticeably light (14% lower YoY)
  - 5 utility issuers tapped the market for over $18n last week, including an extendible offering, three 30-yr tranches, and two 10-yr tranches
  - JPMorgan served as bookrunner Wyeth's (A3/A) $2.5bn offering, which included a $500MM 10-year and a $2Bn 30 year, pricing at +89bp and +120bp, respectively. The offering was announced as $1.5bn of 30-year bonds; the book grew at a steady pace and also received a reverse inquiry for a 10-year tranche, enabling the company to upsize the offering by $1Bn and add a 10-year tranche
  - Primary supply is expected to remain robust as JPMorgan expects a very healthy calendar in coming weeks
- Although the equity markets rallied following the Fed's policymaking climb-down, the credit markets remained relatively muted last week with high grade corporate bond spreads finishing unchanged to just slightly wider
- JPMorgan believes that a cautious stance will be maintained for investors in the high grade asset class, as in the very near term, spreads may strengthen modestly as market participants continue to price in a higher probability of an ease in interest rates....
  - ...However, the prospect of interest rate policy uncertainty, real deceleration in corporate earnings and diminished investor sentiment suggest that there are significant risks of spread widening
  - High grade credit spreads are also unlikely to enjoy a full retracement of the recent widening
- The recent JPMorgan Credit Client Survey depicted investors having less weighting towards corporate bonds and a negative spread outlook
- Given the robust new issue calendar, investors are expected to add credit exposure through new issues rather than the secondary market

Selected recent investment grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
3/19	SHELL INTERNATIONAL FINANCE	Aa1/AA	500	4.950	03/22/2012	48
3/19	SHELL INTERNATIONAL FINANCE	Aa1/AA	[illegible]	5.200	03/22/2017	68
3/19	IBM CORP	A1/A+	500	4.950	03/22/2011	48
3/19	EMPIRE DISTRICT ELECTRIC	Baa1/BBB+	80	5.875	04/01/2037	115
3/20	CONNECTICUT LIGHT & POWER	A3/BBB+	150	5.375	03/01/2017	87
3/20	CONNECTICUT LIGHT & POWER	A3/BBB+	150	5.750	03/01/2037	110
3/20	CENTRAL HUDSON GAS & ELECTRIC	A2/A	33	5.804	03/23/2037	108
3/20	SOUTHERN CO	A3/A-	400	FRN	1/5 Extend	+1,2,3,4,5
3/22	CLEVELAND ELECTRIC ILLUM	Baa1/BBB-	250	5.700	04/01/2017	112
3/22	WYETH	A3/A	500	5.450	04/01/2017	89
3/22	WYETH	A3/A	2000	5.950	04/01/2037	120

Utility and Pipeline new issue supply ($Bn)



JPMorgan

GRAB   Govt **YAS**

Screen Printed

YIELD & SPREAD ANALYSIS

US TREASURY N/B T 4 3/4 02/15/37

SETTLE 3/29/07 FACE AMT

1) YA YIELDS 2) YASD RISK & T 4 3/4 02/15/37

PRICE 99-9 HEDGE HEDGE BOND

YIELD 4.795 RATIOS OAS

SPRD 0.00 bp 15.51

15.362

versus

30yr T 4 3/4 02/15/37 BENCHMARK

PRICE 99-9 Save Delete Workout HEDGE Amount: 1,000 M

YIELD 4.795 % OAS HEDGE Amount: 1,000 M

Yields are: Semi-Annual

3) OAS SPREADS FINANCING

OAS: -0.0 CRV# CMT VOL Opt

OAS: CRV# Int Income

-55.1 -57.5 11) History Fin Cost -12.43

CRV# US $ SWAP 30/360 -12.96

ISPRD DSPRD

Yield Curve: US TREASURY ACTIVES

+ 0 v 29.9yr (4.795 %) INTERPOLATED

+ 34 v 5yr Accrued Interest 0.551105

+ 21 v 10yr 42

+ 0 v 30yr