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T.R.A. DOCKET ROOM

Mr. Eddie Roberson
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

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
F 502-627-3213
rick.lovekamp@eon-us.com

VIA UPS OVERNIGHT DELIVERY

January 21, 2008

RE: Petition of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations
Docket No. 07-00244

Dear Mr. Roberson:

Pursuant to Finding No. 3 of the Commission's Order in the aforementioned proceeding, Kentucky Utilities Company ("KU") hereby files an original and thirteen (13) copies of all correspondence submitted to the Kentucky Public Service Commission ("KPSC") and the Virginia State Corporation Commission ("VSCC") under said Order.

On December 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 a \$100,000,000 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.

Mr. Eddie Roberson
January 21, 2008

Attached are copies of all 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,

A handwritten signature in black ink, appearing to read "Rick E. Lovekamp", with a stylized flourish at the end.

Rick E. Lovekamp

cc: Ron Jones – Tennessee Regulatory Authority
Sara Kyle – Tennessee Regulatory Authority
Dan Arbough
Kendrick Riggs – Stoll · Keenon · Ogden



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

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
F 502-627-3213
rick.lovekamp@eon-us.com

December 28, 2007

**RE: The application of Kentucky Utilities Company for an Order
Authorizing the Issuance of Securities and the Assumption of
Obligations (Case No. 2007-00437)**

Dear Ms. O'Donnell:

Pursuant to Ordering Paragraph No. 6 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 December 20, 2007, KU borrowed \$100 million from Fidelity Corporation in
accordance with the order issued November 1, 2007 in the above-referenced
case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelity Corporation
Amount:	\$100 million
Maturity Date:	December 19, 2014
Interest Rate:	5.45%
Price Paid:	100%
Proceeds:	\$100 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	June 20 and December 20 commencing June 20, 2008

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 1.61% above the yield on the seven-year treasury bond (3.84%). The supporting price indications from the investment banks are attached along with a copy of pages 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 seven-year treasury	1.61%	
Seven-year treasury rate	3.84%	
All-in cost	5.45%	
Average bid above seven-year treasury		1.86%
Seven-year treasury rate		3.84%
All-in cost		5.70%

The 161 basis point spread for this seven year borrowing is comparable to that of a recent five-year debt issuance from another energy company with a similar credit rating and favorable to that of recent five and ten-year issuances from other energy companies with lower ratings. (See table below along with attached support documentation).

Issuer	Moody's / S&P	Maturity	Spread
Alabama Power Co.	A2 / A	12/15/2012	+ 160 bps
Virginia Electric & Power	Baa1/BBB	11/30/2012	+ 175 bps
West Penn Power Co.	Baa2/BBB+	12/15/2017	+ 200 bps

Ms. Elizabeth O'Donnell
December 28, 2007

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,

A handwritten signature in black ink, appearing to read "Rick E. Lovekamp", with a stylized flourish at the end.

Rick E. Lovekamp

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

GRAB

Govt YAS

Enter 12<G0> for Comparable Bond Spread Analysis

YIELD & SPREAD ANALYSIS

US TREASURY N/B T 4 1/4 11/15/14 102-15 /102-17 (3.84 /83) BGN @14:48

SETTLE 12/19/07 PAGE 001 OF 001 PROCEEDS 1,028,969.78

1) YA YIELDS 2) YASD RISK & T 4 1/4 11/15/14 HEDGE BOND
PRICE 102-16 No Rounding HEDGE
YIELD 3.834 Mst RATIOS OAS
SPRD -32.40 bp yld-decimals / Consensus 5.93 5.98 8.14
BENCHMARK Delete Workout HEDGE Amount: 755 M 6.106 6.157 8.232
0.41 0.42 0.78

VERSUS
T 4 1/4 11/15/17
PRICE 100-23+ Save
YIELD 4.158 %
Yields are: Semi-Annual UAS HEDGE Amount: 748 M

12) CBS

3) OAS SPREADS 4) ASW 5) FPA FINANCING
OAS: 5.2 CRV# (MT VOL
OAS: CRV#

CRV# -76.8 -77.9 11) History Int Income 116.76
ISPRD -75.4 DSPRD US \$ SWAP 30/360 -105.76 11.00
1.61

Yield Curve: 125 US TREASURY ACTIVES
+ 4 v 0.9yr (3.783 %) INTEREST Drop (bp) 0.00
- 32 v 10yr (4.16) T 4 1/4 11/15/17 Accrued Interest /100 0.396978
- 75 v 30yr (4.59) T 5 05/15/37 Number Of Days Accrued 34

Summary Terms for Kentucky Utilities

Indicative Fixed Rate Pricing

Kentucky Utilities

Summary Terms for Underwritten U.S.-Domestic First Mortgage Bonds
(Assumes Secured Debt Ratings of A1 / A)

Fixed Rate

Maturity:	7 Years
U.S. Treasury Rate	3.870%
Issue Price	Par
Optionality:	MW
Reoffer Spread:	170 bps
Reoffer Yield	5.570%
Gross Spread:	0.625%
Amortization of Gross Spread:	0.11%
Semiannual All-in Cost:	5.679%
Semiannual All-in Spread:	181 bps

U.S. Treasury rates as of December 17, 2007

LEHMAN BROTHERS

Kentucky Utilities indicative new issue pricing and comparable secondary levels

Kentucky Utilities fixed rate pricing - A1/A, first mortgage bonds

Maturity	7
Reference Treasury	4.250% 11/14
Treasury Yield	3.81
Reoffer Spread (bps)	170A
Coupon (%)	5.51
Amortized fees (bps)	10
All-in Cost (%)	5.61
Coupon swapped to 5mSt (bps) ¹	88

¹ 3 month LIBOR yielding 4.94%

(+/-) positive/negative outlook, (*) review for potential upgrade/downgrade; (**) developing

Comparable secondary trading levels

Issue Date	Issuer	Rating	Security	Coupon	Maturity	Size (\$MM)	Bid (bps) 12/17/07
10/03/07	Florida Power & Light	Aa3/A	1st Mortgage	5.500%	11/01/2017	300	125
04/12/07	Florida Power & Light	Aa3/A	1st Mortgage	5.850%	05/01/2037	300	140
09/17/07	San Diego Gas & Electric	A1/A+	1st Mortgage	6.125%	09/15/2037	250	150
01/11/05	Southern California Edison	A2/A	1st Mortgage	5.000%	01/15/2016	400	135
12/04/06	Southern California Edison	A2/A	1st Mortgage	5.550%	01/15/2037	400	150
09/18/06	PECO Energy Co	A2/A	1st Mortgage	5.950%	10/01/2036	300	150
09/11/07	Progress Energy Florida	A2/A-	1st Mortgage	5.800%	09/15/2017	250	135
09/11/07	Progress Energy Florida	A2/A	1st Mortgage	6.350%	09/15/2037	500	160
08/08/07	Public Service Colorado	A3/A	1st Mortgage	6.250%	09/01/2037	350	160



Indicative New Issue Pricing – Kentucky Utilities (A1/A) FMBs

Comparables

Company	Rating	Size	Yield	Term	Spread	Price
Florida Power & Light*	Aa3	300	5.550%	11/17	+122	+55
Florida Power & Light*	Aa3	300	5.850%	05/37	+143	+85
Progress Energy Florida*	A2	250	5.800%	09/17	+135	+69
Progress Energy Florida*	A2	500	6.350%	09/37	+155	+97
PacificCorp*	A3	200	4.950%	08/14	+110	+68
PacificCorp*	A3	600	6.250%	10/37	+155	+97
Public Service Colorado*	A3	600	7.875%	10/12	+140	+57
Public Service Colorado*	A3	350	6.250%	09/37	+155	+97
Con Edison Co of NY	A1	400	5.500%	08/16	+150	+91
Con Edison Co of NY	A1	525	6.300%	08/37	+168	+110
Wisconsin Electric Power	A1	300	4.500%	05/13	+140	+49
Wisconsin Electric Power	A1	300	5.700%	12/36	+160	+102
Georgia Power	A2	450	5.700%	06/17	+142	+78
Georgia Power	A2	250	5.650%	03/37	+158	+100
MidAmerican Energy	A2	250	5.950%	07/17	+155	+90
MidAmerican Energy	A2	350	5.800%	10/36	+168	+110

* negative outlook † negative watch ** outlook forming † positive outlook † positive watch † MBS

New Issue Pricing

Fixed Rate Issuer	7 Years
Benchmark	4.25% 11/14
Benchmark Yield	3.820%
Reoffer Spread	+150 area
Reoffer Yield	5.32% area
Underwriting Commission	0.625%
All-in Yield	5.43% area

Swap Spread	-77
Reoffer versus LIBOR	\$L+73 area
All-in versus LIBOR	\$L+84 area

Benchmark and reoffer spreads as of 12/17/2007.

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Tuesday, December 18, 2007 8:23 AM
To: Wiedmar, John
Subject: WG: Spread

Von: SCHROEDER, Michael, GBM [mailto:Michael.SCHROEDER@rbs.com]
Gesendet: Dienstag, 18. Dezember 2007 11:24
An: Heintzen, Lioba
Betreff: RE: Spread

Hallo Frau Heintzen,

we currently estimate E.ON to pay T+170 on an indicative basis in USD 100M and a 7y maturity. Reference would be the interpolated rate between the 5y and the 10y Treasury (3 3/8, Nov 2012 and 4 1/5, Nov 2017), currently 3.77%.

Please bear in mind, that markets, including the US PP market, are currently volatile and do not hesitate to let me know, should you require any further information.

Beste Grüße

Michael Schroeder
RBS Global Banking & Markets
Office: +44 20 7085 1204 | Mobile: +44 7725 062489 | Fax: +44 20 7085 3607

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 18 December 2007 09:06
To: SCHROEDER, Michael, GBM
Subject: Spread

Hallo Herr Schröder,

Ich brauche für meine US Kollegen für rein interne Zwecke einen Refinanzierungsspread. Und zwar hätte ich gern gewußt, welchen all in Spread E.ON zu zahlen hätte für ein USD 100m Privat Placement mit einer Laufzeit von 7 Jahren. Es wäre nett, wenn Sie mir die Referenzanleihe nennen könnten und mir eine mail in Englisch als Antwort schicken.

Vielen Dank!

Mit freundlichen Grüßen/Kind regards

Lioba Heintzen

Treasury
T: +49 2 11 45 79-655
F: +49 2 11 45 79-669

12/18/2007

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Monday, December 17, 2007 12:25 PM
To: Wiedmar, John
Subject: WG: US Refinancing Spread

Von: Martin.Sohns@barclayscapital.com [mailto:Martin.Sohns@barclayscapital.com]
Gesendet: Montag, 17. Dezember 2007 17:51
An: Heintzen, Lioba
Cc: Martin.Gueldenberg@barclayscapital.com
Betreff: RE: US Refinancing Spread

Hallo Frau Heintzen,
Please find our spread indication for an E.ON 7y private placement of USD 100m.

UST +173bp

Relevant US Benchmark is: US Treasury 4.5% 15.11.2014

Please let know if you need additional information.

Kind Regards, Martin Sohns

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 17 December 2007 11:19
To: Sohns, Martin: CorporateSales (FFM)
Subject: US Refinancing Spread

Hallo Herr Sohns,

könnten Sie mir den all in Spread über Treasuries nennen, den E.ON zu zahlen hätte für ein USD 100m Private Placement mit festem Zinssatz für eine Laufzeit von 7 Jahren? Es wäre nett, wenn ich eine mail in Englisch bekommen könnte, die auch die Referenztreasury benennt.

Danke!

Mit freundlichen Grüßen/Kind regards

Lioba Heintzen

Treasury
T: +49 2 11 45 79-655
F: +49 2 11 45 79-669
Lioba.Heintzen@eon.com

12/17/2007

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Monday, December 17, 2007 12:26 PM
To: Wiedmar, John
Subject: WG: US Refinancing Spread

Von: Lingnau, Philipp (GCM) [mailto:Philipp.Lingnau@morganstanley.com]
Gesendet: Montag, 17. Dezember 2007 13:17
An: Heintzen, Lioba
Betreff: RE: US Refinancing Spread

Dear Mrs Heintzen,

pls find attached the levels for a 7 year USD Private Placement for E.ON:

EDP 12s T+205
EDP 18s T+223
ENEL 17s T+225

For a \$100MM deal for E.ON:

10yr T+220 L+152
7yr T+215 L+137

With best regards

Philipp Lingnau

Philipp Lingnau - Managing Director

Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7577-6816
Mobile: +44 77990-60329
Fax: +44 20 7056-1132
Philipp.Lingnau@morganstanley.com

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 17 December 2007 11:24
To: Lingnau, Philipp (GCM)
Subject: US Refinancing Spread

Hallo Herr Lingnau,

12.17.2007

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York
Week ending
November 30, 2007

Peter Madonia, MD (212) 834-2808
Anisha Mehra, ED (212) 834-4918
Heather Towner, VP (212) 834-4871
Steve Leamer, Assoc (212) 834-4084
Stephanie Wai, Analyst (212) 834-3117
Sarah Chessin, VP-Hybrids (212) 834-4073

Economic and Treasury market update

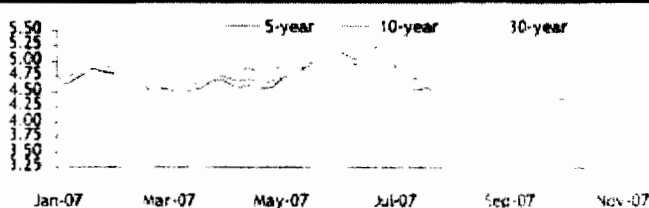
- Tighter credit conditions, rising oil prices, and intensified contraction in residential investment have led JPMorgan economists to revise GDP growth forecasts down to 0.5% in 4Q'07 and 1.5% in 1Q'08
- Recent economic data continues to fuel a flight to quality and suggest future slow down in growth
 - Headline risk from financial institutions reporting earnings or asset write-downs
 - Energy prices remain high, although on speculation that OPEC may increase production, have fallen below \$90
 - Concerns of declining dollar and tightening credit conditions may begin to affect business spending in the 1H08
- Fed Chairman Bernanke observed that the FOMC "will have to judge whether the outlook for the economy or the balance of risks has shifted materially" by "taking account of the incoming economic data and the ongoing developments in the financial markets"
 - This statement sparked the largest two-day rally in equities in over 5 years as investors gained confidence that the Fed will cut rates on December 11
 - Futures have priced in 100% chance of a 25bp rate cut and 30% probability of a 50bp cut
 - JPMorgan continues to forecast that the Fed will ease 25bps at both the December and January meetings before going on hold until 4Q08
- Treasury yields continued to fall, with the 10yr UST touching 3.81% at one point during the week

JPMorgan interest rate forecast (%)

	30-Nov-07	1Q 08	2Q 08	3Q 08	4Q 08
Fed funds rate	4.50%	4.00%	4.00%	4.00%	4.50%
3m LIBOR	5.13%	4.40%	4.30%	4.45%	4.70%
2yr UST	1.03%	3.05%	3.20%	3.45%	4.20%
5yr UST	3.28%	3.55%	3.70%	3.85%	4.60%
10yr UST	1.94%	4.10%	4.20%	4.40%	5.05%
30yr UST*	4.38%	4.60%	4.70%	4.85%	5.45%
2s/10s curve	91 bps	105 bps	100 bps	95 bps	85 bps
10s/30s curve	44 bps	50 bps	50 bps	45 bps	40 bps

JPMorgan forecast as of 11/30/07; forecasts are for quarter-end
* 4.750% Treasury due Feb 2037

Historical treasury rates (%)



Investment grade primary and secondary market update

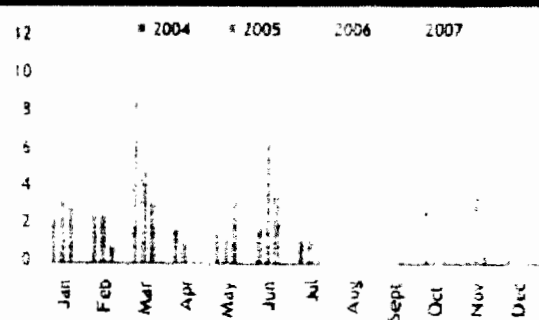
- Given the relative market stability, there was \$36bn of investment grade supply last week across 30 new issues, with Thursday being the second busiest day of the year in the IG bond market
- Many issuers are taking the view that it is prudent to lock in liquidity at historically attractive yields before year-end, given the market uncertainty in 1Q08
- Selected utility issuance includes:
 - Pacific Gas and Electric (Baa1/BBB+) announced a \$500mm (will not grow) offering of 10 year senior unsecured bonds with JPMorgan as bookrunner
 - The transaction moved through the market quickly, pricing within 4 hours of announcement
 - The orderbook closed nearly 4 times oversubscribed, dominated by asset managers and insurance companies
 - The significant demand allowed the company to price at +167 bps, the tight end of the +170 area guidance
 - New York State Electric and Gas (Baa1/BBB+) with JPMorgan as bookrunner, priced \$200mm of 10yr unsecured notes at +225bps via a 144A with no registration rights transaction
 - This was NYSE&G's first transaction since December 2006
 - The orderbook was composed of high quality insurance companies and asset managers
 - Dominion Resources (Baa2/BBB) and its operating company, Virginia Electric Power (Baa1/BBB) priced \$1.4bn across 5, 10, and 30 senior unsecured bonds
 - The company ultimately priced 10yrs at the holding company at +210bps, and 5s and 30s at the operating company at +175 and +200bps, respectively
 - The current outstanding Virginia Electric Power long bond due May 2037 was trading at +165bps
- While the secondary market remains rather illiquid, and deals this week have come at significant concessions to secondary benchmarks (25-45bps to cash), issuers remain focused on the attractive all-in coupons resulting from the recent rally in treasuries
- Furthermore, recent new issues have performed well in the secondary market providing a positive backdrop, and we expect issuance to remain active in the current week

Selected recent investment grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
11/27	Dominion Resources Inc	Baa2/BBB	350	5.000%	11/30/2017	210
11/27	Virginia Electric Power	Baa1/BBB	500	5.100%	11/30/2012	175
11/27	Virginia Electric Power	Baa1/BBB	450	6.350%	11/30/2017	200
11/28	E.I. Du Pont de Nemours	A2/A	750	5.000%	01/15/2013	158
11/28	Kellogg Co	A3/BBB-	750	5.125%	12/03/2012	165
11/28	Pacific Gas & Electric	Baa1/BBB+	500	5.525%	11/30/2017	167
11/28	Prudential Financial Inc	A3/A+	750	5.010%	12/01/2017	235
11/28	Prudential Financial Inc	A3/A+	750	5.625%	12/01/2037	225
11/29	NY State Electric and Gas	Baa1/BBB-	200	6.150%	12/15/2017	225
11/29	Walt Disney Company	A2/A	750	4.700%	12/01/2012	135
11/29	General Electric Co	Aaa/AAA	4,000	5.250%	12/06/2017	140
11/29	Southwestern Electric Power	Baa1/BBB	300	5.875%	03/01/2018	200
11/29	PepsiCo Inc	Aa2/A+	1,000	4.650%	02/15/2013	128
11/29	Freddie Mac	Aa3/AA-	6,000	8.375%	PREF	-
11/29	Georgia Power Company	A2/A	100	6.050%	12/01/2038	-

Utility includes utility and pipeline transactions

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
December 7, 2007

Peter Madonia, MD (212) 834-3808
Amisha Mehra, ED (212) 834-4918
Heather Towner, VP (212) 834-4871
Steve Leamer, Assoc (212) 834-4084
Stephanie Wai, Analyst (212) 834-3117
Sarah Chessin, VP-Hybrids (212) 834-4073

Economic and Treasury market update

- Last week's economic data proved slightly better than anticipated and has marginally reduced recession risks
 - Vehicle sales and factory orders surprised on the upside
 - Friday's labor report revealed that the labor market had remained stable through November, lending a firm tone to the market
 - Nonfarm payrolls increased 94,000 last month, and the November jobless rate held at 4.66%, essentially unchanged from its reading in July when the credit market problems started
- Plans addressing subprime mortgage and SIV problems also buoyed the markets
 - President Bush and Treasury Secretary Paulson unveiled a plan to aid subprime mortgage borrowers with adjustable rate mortgages
 - Late on Friday, the SuperSIV fund (formerly known as M-LEC) announced its establishment with BlackRock as its manager
 - State and local government investment pools in Florida, Montana, Connecticut and Orange County revealed that they held downgraded, defaulted or subprime-related debt
- With the Fed revealing its awareness of deteriorating conditions in the credit market, the market is pricing in 35 bps of easing, and JPMorgan continues to forecast that the Fed will ease 25bps at both the December and January meetings before going on hold until 4Q08
- Volatility continues in treasury rates with both the 10yr and 30yr treasury yields up 25bps since the beginning of last week

JPMorgan interest rate forecast (%)

	1-Dec-07	1-Q 08	2-Q 08	3-Q 08	4-Q 08
Fed funds rate	4.50%	4.00%	4.00%	4.00%	4.50%
3m LIBOR	5.14%	4.40%	4.10%	4.45%	4.70%
2yr UST	3.51%	3.05%	3.20%	3.45%	4.20%
5yr UST	2.55%	2.55%	3.70%	3.85%	4.60%
10yr UST	4.12%	4.10%	4.20%	4.40%	5.05%
30yr UST	4.58%	4.60%	4.70%	4.85%	5.45%
2yr/10s curve	101 bps	105 bps	100 bps	95 bps	55 bps
10s/30s curve	46 bps	50 bps	50 bps	45 bps	40 bps

JPMorgan forecast as of 12/07/07; forecasts are for quarter-end
* 4.750% Treasury due Feb-2037

Historical treasury rates (%)

	5-year	10-year	30-year
Jan-07	5.50	5.15	5.00
Mar-07	5.00	4.75	4.50
May-07	4.50	4.25	4.00
Jul-07	4.00	3.75	3.50
Sep-07	3.75	3.25	3.25
Dec-07			

Source: Bloomberg

Investment grade primary and secondary market update

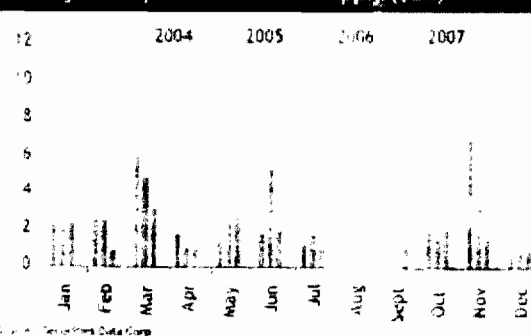
- This past week saw a heavy supply of new issuance with 28 deals pricing for over \$32bn in supply
 - The last two weeks have seen approximately \$65bn of issuance, close to \$3bn of which was from the utility sector
- A couple of utility issuers priced offerings:
 - West Penn Power (Baa2/BBB+) announced a \$275mm 10-year first mortgage bond 144A offering with JPMorgan as bookrunner
 - The orderbook quickly became oversubscribed, generating significant demand from high quality investors, allowing West Penn to price at T-200bps
 - Over 90% of the allocations were to insurance companies and asset managers
 - Alabama Power (A2/A) priced \$200mm of 5-year unsecured notes at -160bps
- Recent new issues have seen broader investor participation, including hedge funds who have been on the sidelines for the last few months, resulting in oversubscribed order books
- Most new issues are performing well in the secondary market partially due to many investors who have not been allocated their entire orders buying new deals when they are free to trade, and due to a sell off in UST yields last week
- The primary market continues to reprice the secondary market wider
 - Newly issued bonds are being priced significantly wide of secondary market levels
 - This is likely to limit the ability of the market to rally, and may cause it to widen given the magnitude of new issue discounts
- We expect issuance to be tighter in the current week in anticipation of the FOMC meeting on December 11

Selected recent investment grade new issuance

Date	Issuer	Rating	Size	Coupon	Maturity	Spread
12/3	AT&T Inc	A2/A	1,000	4.950	01/15/2013	170
12/3	AT&T Inc	A2/A	2,000	6.100	01/15/2038	200
12/3	Caterpillar Financial Services	A2/A	500	4.850	12/07/2012	155
12/4	Alabama Power Company	A2/A	200	4.850	12/15/2012	160
12/4	Baxter International	Aa1/A-	500	5.250	12/01/2037	188
12/4	United Technologies	A2/A	1,000	5.375	12/15/2017	150
12/4	Transocean Inc	Baa2/BBB+	500	5.250	03/15/2013	200
12/4	Transocean Inc	Baa2/BBB+	1,000	6.000	03/15/2018	215
12/4	Transocean Inc	Baa2/BBB+	1,000	6.300	03/15/2038	245
12/5	US Steel Corp	Baa3/BB+	500	7.000	02/01/2018	317.6
12/5	Kraft Foods Inc	Baa2/BBB+	2,000	4.125	02/01/2018	225
12/5	Kraft Foods Inc	Baa2/BBB+	1,000	4.875	02/01/2038	250
12/6	West Penn Power Co	Baa2/BBB+	275	5.950	12/15/2017	200
12/6	Danaher Corp	A2/A-	500	5.625	01/15/2018	170
12/6	Vulcan Materials	A3/A-	725	FRN	12/15/2010	241.125
12/6	Vulcan Materials	A3/A-	200	5.600	11/30/2012	225
12/6	Vulcan Materials	A3/A-	150	6.400	11/30/2017	240
12/6	Vulcan Materials	A3/A-	250	7.150	11/30/2037	270

Source: Moody's, S&P, and public market actions

Utility and Pipeline new issue supply (\$Bn)





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

**Old Dominion Power
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
F 502-627-3213
rick.lovekamp@eon-us.com

VIA UPS OVERNIGHT DELIVERY

December 28, 2007

**RE: Kentucky Utilities Company (Case No. PUE-2007-00098)
Preliminary Report of Action**

Dear Mr. Peck:

Pursuant to the Commission's Order, Ordering Paragraph No. 3, dated November 5, 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 December 20, 2007 KU/ODP borrowed \$100 million from Fidelity Corporation in accordance with the order issued November 5, 2007 in the above-referenced case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelity Corporation
Amount:	\$100 million
Maturity Date:	December 19, 2014
Interest Rate:	5.45%
Price Paid:	100%
Proceeds:	\$100 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	June 20 and December 20 commencing June 20, 2008

The proceeds of the loan were used to fund capital projects described in the application. KU elected to issue a 7 year loan to lock in historically attractive long-term rates, but avoid the wide credit spreads which make all-in rates less attractive beyond ten years.

The interest rate was set using the lowest rate quoted to KU at 1.61% above the yield on the seven-year treasury bond (3.84%). 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 seven-year treasury	1.61%	
Seven-year treasury rate	3.84%	
All-in cost	5.45%	
Avg. bid above seven-year treasury		1.86%
Seven-year treasury rate		3.84%
All-in cost		5.70%

The 161 basis point spread for this seven year borrowing is comparable to that of a recent five-year issuance from another energy company with a similar credit rating and favorable to that of recent five and ten-year issuances from other energy companies with lower ratings. (See table below)

Issuer	Moody's / S&P	Maturity	Spread
Alabama Power Co.	A2 / A	12/15/2012	+ 160 bps
Virginia Electric & Power	Baa1 / BBB	11/30/2012	+ 175 bps
West Penn Power Co.	Baa2/BBB+	12/15/2017	+200 bps

Mr. Joel Peck
December 28, 2007

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,

A handwritten signature in black ink, appearing to read "Rick E. Lovekamp". The signature is fluid and cursive, with the first name "Rick" being more prominent.

Rick E. Lovekamp

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

GRAB

Govt YAS

Enter 12<G0> for Comparable Bond Spread Analysis

YIELD & SPREAD ANALYSIS

US TREASURY N/B T 4 1/4 11/15/14 102-15 /102-17 (3.84 /83) EGN @14:48

SETTLE 12/19/07 FACE AMT 1000000000 OF PROCEEDS 1,028,332,373

1) YA YIELDS 2) YASD RISK & T 4 1/4 11/15/14 HEDGE BOND
PRICE 102-16 No Rounding HEDGE
YIELD 3.834 Mst RATIOS OAS
SPRD -32.40 bp yld-decimals / Consensus 5.93 5.98 8.14
BENCHMARK 6.106 6.157 8.232
Delete 0.41 0.42 0.78

T 4 1/4 11/15/17
PRICE 100-23+ Save
YIELD 4.158 %
Yields are: Semi-Annual
3) OAS SPREADS 4) ASW 5) FPA FINANCING
OAS: 5.2 CRV# (MT VOL 1000000000)
OAS: CRV#
CRV# -76.8 -77.9 11) History Int Income 116.76
ISPRD US \$ SWAP 30/360 Fin Cost -105.76
Yield Curve: 125 US TREASURY ACTIVES Forwrd Prc 102.498900 11.00
+ 4 v 0.9yr (3.788 %) Inflation Prc Drop 0.001100 1.61
- 32 v 10yr (4.16) T 4 1/4 11/15/17 Drop (bp) 0.00
- 75 v 30yr (4.59) T 5 05/15/37 Accrued Interest /100 0.396978
Number Of Days Accrued 34

12) CBS

Summary Terms for Kentucky Utilities

Indicative Fixed Rate Pricing

Kentucky Utilities

Summary Terms for Underwritten US-Domestic First Mortgage Bonds

(Assumes Secured Debt Ratings of A1 / A)

Fixed Rate Mortgage System

Maturity: 7 Years

U.S. Treasury Rate

3.870%

Issue Price

Par

Optionality

MW

Reoffer Spread:

170 bps

Reoffer Yield:

5.570%

Gross Spread:

0.625%

Amortization of Gross Spread:

0.11%

Semiannual All-in Cost:

5.679%

Semiannual All-in Spread:

181 bps

U.S. Treasury rates as of December 17, 2007

LEHMAN BROTHERS

Kentucky Utilities indicative new issue pricing and comparable secondary levels

Kentucky Utilities fixed rate pricing - A1/A, first mortgage bonds

Maturity	7
Reference Treasury	4.250% 11/14
Treasury Yield	3.81
Reoffer Spread (bps)	170A
Coupon (%)	5.51
Amortized fees (bps)	10
All-in Cost (%)	5.61
Coupon swapped to 3m3L (bps) ¹	88

¹ 3 month LIBOR, pending 4-9a.

(+) positive outlook, (**) review for potential upgrade/downgrade, (***) developing

Comparable secondary trading levels

Issue Date	Issuer	Rating	Security	Coupon	Maturity	Size (\$MM)	Bid (bps) 12/17/07
10/03/07	Florida Power & Light	Aa3/A	1st Mortgage	5.550%	11/01/2017	300	125
04/12/07	Florida Power & Light	Aa3/A	1st Mortgage	5.850%	05/01/2037	300	140
09/17/07	San Diego Gas & Electric	A1/A+	1st Mortgage	6.125%	09/15/2037	250	150
01/11/05	Southern California Edison	A2/A	1st Mortgage	5.000%	01/15/2016	400	135
12/04/06	Southern California Edison	A2/A	1st Mortgage	5.550%	01/15/2037	400	150
09/18/06	PECO Energy Co	A2/A	1st Mortgage	5.950%	10/01/2036	300	150
09/13/07	Progress Energy Florida	A2/A-	1st Mortgage	5.800%	09/15/2017	250	135
09/13/07	Progress Energy Florida	A2/A-	1st Mortgage	6.350%	09/15/2037	500	160
08/08/07	Public Service Colorado	A3/A	1st Mortgage	6.250%	09/01/2037	350	160



Indicative New Issue Pricing – Kentucky Utilities (A1/A) FMBs

Comparables

12/14/07						
Company	Rating	Yield	Term	Yield	Spread	Yield
Florida Power & Light*	Aa3	A	300	5.530%	11/17	+122
Florida Power & Light*	Aa3	A	300	5.850%	05/37	+143
Progress Energy Florida*	A2	A-	250	5.800%	09/17	+135
Progress Energy Florida*	A2	A-	500	6.350%	09/37	+155
PacificCorp*	A3	A-	200	4.950%	08/14	+110
PacificCorp*	A3	A-	600	6.250%	10/37	+155
Public Service Colorado*	A3	A-	600	7.875%	10/12	+140
Public Service Colorado*	A3	A-	350	6.250%	09/37	+155
Con Edison Co of NY	A1	A+	400	5.500%	09/16	+150
Con Edison Co of NY	A1	A+	525	6.300%	08/37	+168
Wisconsin Electric Power	A1	A-	300	4.500%	05/13	+140
Wisconsin Electric Power	A1	A-	300	5.700%	12/36	+160
Georgia Power	A2	A	450	5.700%	06/17	+142
Georgia Power	A2	A	250	5.650%	03/37	+158
MidAmerican Energy	A2	A-	250	5.950%	07/17	+155
MidAmerican Energy	A2	A-	350	5.800%	10/36	+168

* negative outlook; † negative watch; ** outlook forming; † positive outlook; ‡ positive watch; † MMBs

New Issue Pricing

Fixed Rate Issuance		7 Years
Benchmark		4.25% 11/14
Benchmark Yield		3.820%
Reoffer Spread		+150 area
Reoffer Yield		5.32% area
Underwriting Commission		0.625%
All-in Yield		5.43% area
Swap Spread		+77
Reoffer versus LIBOR		\$L+73 area
All-in versus LIBOR		\$L+84 area

Benchmark and reoffer spreads as of 12/17/2007.

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Tuesday, December 18, 2007 8:23 AM
To: Wiedmar, John
Subject: WG: Spread

Von: SCHROEDER, Michael, GBM [mailto:Michael.SCHROEDER@rbs.com]
Gesendet: Dienstag, 18. Dezember 2007 11:24
An: Heintzen, Lioba
Betreff: RE: Spread

Hallo Frau Heintzen,

we currently estimate E.ON to pay T+170 on an indicative basis in USD 100M and a 7y maturity. Reference would be the interpolated rate between the 5y and the 10y Treasury (3 3/8, Nov 2012 and 4 1/5, Nov 2017), currently 3.77%.

Please bear in mind, that markets, including the US PP market, are currently volatile and do not hesitate to let me know, should you require any further information.

Beste Grüße

Michael Schroeder
RBS Global Banking & Markets
Office: +44 20 7085 1204 | Mobile: +44 7725 062489 | Fax: +44 20 7085 3507

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 18 December 2007 09:06
To: SCHROEDER, Michael, GBM
Subject: Spread

Hallo Herr Schröder,

ich brauche für meine US Kollegen für rein interne Zwecke einen Refinanzierungsspread. Und zwar hätte ich gern gewußt, welchen all in Spread E.ON zu zahlen hätte für ein USD 100m Privat Placement mit einer Laufzeit von 7 Jahren. Es wäre nett, wenn Sie mir die Referenzanleihe nennen könnten und mir eine mail in Englisch als Antwort schicken.

Vielen Dank!

Mit freundlichen Grüßen/Kind regards

Lioba Heintzen

Treasury
T: +49 2 11-45 79-555
F: +49 2 11-45 79-669

12.18.2007

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Monday, December 17, 2007 12:25 PM
To: Wiedmar, John
Subject: WG: US Refinancing Spread

Von: Martin.Sohns@barclayscapital.com [mailto:Martin.Sohns@barclayscapital.com]
Gesendet: Montag, 17. Dezember 2007 17:51
An: Heintzen, Lioba
Cc: Martin.Gueldenberg@barclayscapital.com
Betreff: RE: US Refinancing Spread

Hallo Frau Heintzen,
Please find our spread indication for an E.ON 7y private placement of USD 100m.

UST +173bp

Relevant US Benchmark ist: US Treasury 4.5% 15.11.2014

Please let know if you need additional information.

Kind Regards, Martin Sohns

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 17 December 2007 11:19
To: Sohns, Martin: CorporateSales (FFM)
Subject: US Refinancing Spread

Hallo Herr Sohns,

konnten Sie mir den all in Spread über Treasuries nennen, den E.ON zu zahlen hätte für ein USD 100m Private Placement mit festem Zinssatz für eine Laufzeit von 7 Jahren? Es wäre nett, wenn ich eine mail in Englisch bekommen könnte. die auch die Referenztreasury benennt.

Danke!

Mit freundlichen Grüßen/Kind regards

Lioba Heintzen

Treasury
T +49 2 11 45 79-555
F +49 2 11 45 79-669
lioba.heintzen@eon.com

12/17/2007

Wiedmar, John

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Monday, December 17, 2007 12:26 PM
To: Wiedmar, John
Subject: WG: US Refinancing Spread

Von: Lingnau, Philipp (GCM) [mailto:Philipp.Lingnau@morganstanley.com]
Gesendet: Montag, 17. Dezember 2007 13:17
An: Heintzen, Lioba
Betreff: RE: US Refinancing Spread

Dear Mrs Heintzen,

pls find attached the levels for a 7 year USD Private Placement for E.ON:

EDP 12s T+205
EDP 18s T+223
ENEL 17s T+225

For a \$100MM deal for E.ON:

10yr T+220 L+152
7yr T+215 L+137

With best regards

Philipp Lingnau

Philipp Lingnau - Managing Director

Morgan Stanley | Global Capital Markets
20 Bank Street | Canary Wharf | Floor 05
London, E14 4AD
Phone: +44 20 7677-6816
Mobile: +44 77990-60329
Fax: +44 20 7956-1132
Philipp.Lingnau@morganstanley.com

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: 17 December 2007 11:24
To: Lingnau, Philipp (GCM)
Subject: US Refinancing Spread

Hallo Herr Lingnau,

12.17.2007

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York
Week ending
November 30, 2007

Peter Madonia, MD (212) 834-3808
Anisha Mehra, ED (212) 834-4918
Heather Towner, VP (212) 834-4871
Steve Leamer, Assoc (212) 834-4084
Stephanie Wai, Analyst (212) 834-3117
Sarah Chessin, VP-Hybrids (212) 834-4073

Economic and Treasury market update

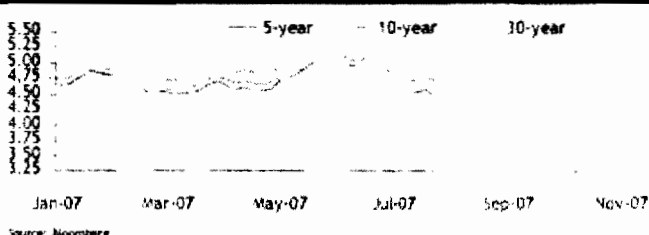
- Tighter credit conditions, rising oil prices, and intensified contraction in residential investment have led JPMorgan economists to revise GDP growth forecasts down to 0.5% in 4Q'07 and 1.5% in 1Q'08
- Recent economic data continues to fuel a flight to quality and suggest future slow down in growth
 - Headline risk from financial institutions reporting earnings or asset write-downs
 - Energy prices remain high, although on speculation that OPEC may increase production, have fallen below \$90
 - Concerns of declining dollar and tightening credit conditions may begin to affect business spending in the 1H08
- Fed Chairman Bernanke observed that the FOMC "will have to judge whether the outlook for the economy or the balance of risks has shifted materially" by "taking account of the incoming economic data and the ongoing developments in the financial markets"
 - This statement sparked the largest two-day rally in equities in over 5 years as investors gained confidence that the Fed will cut rates on December 11
 - Futures have priced in 100% chance of a 25bp rate cut and 30% probability of a 50bp cut
 - JPMorgan continues to forecast that the Fed will ease 25bps at both the December and January meetings before going on hold until 4Q08
- Treasury yields continued to fall, with the 10yr UST touching 3.81% at one point during the week

JPMorgan interest rate forecast (%)

	30-Nov-07	1Q'08	2Q'08	3Q'08	4Q'08
Fed funds rate	4.50%	4.00%	4.00%	4.00%	4.50%
3m LIBOR	5.13%	4.40%	4.30%	4.45%	4.70%
2yr UST	3.03%	3.05%	3.20%	3.45%	4.20%
5yr UST	3.38%	3.55%	3.70%	3.85%	4.60%
10yr UST	3.94%	4.10%	4.20%	4.40%	5.05%
30yr UST	4.38%	4.60%	4.70%	4.85%	5.45%
2s/10s curve	91 bps	105 bps	100 bps	95 bps	85 bps
10s/30s curve	44 bps	50 bps	50 bps	45 bps	40 bps

JPMorgan forecast as of 11/30/07; forecasts are for quarter-end
* 4.750% Treasury due Feb-2037

Historical treasury rates (%)



Investment grade primary and secondary market update

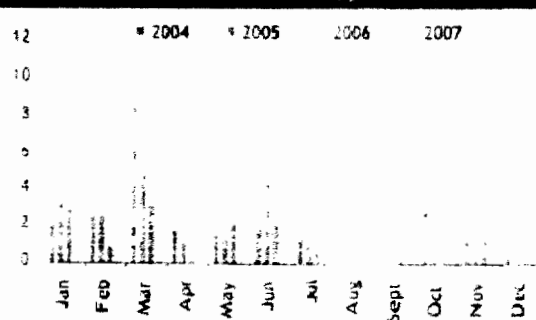
- Given the relative market stability, there was \$36bn of investment grade supply last week across 30 new issues, with Thursday being the second busiest day of the year in the IG bond market
- Many issuers are taking the view that it is prudent to lock in liquidity at historically attractive yields before year-end, given the market uncertainty in 1Q08
- Selected utility issuance includes:
 - Pacific Gas and Electric (Baa1/BBB+)** announced a \$500mm (will not grow) offering of 10 year senior unsecured bonds with JPMorgan as bookrunner
 - The transaction moved through the market quickly, pricing within 4 hours of announcement
 - The orderbook closed nearly 4 times oversubscribed, dominated by asset managers and insurance companies
 - The significant demand allowed the company to price at -167 bps, the tight end of the +170 area guidance
 - New York State Electric and Gas (Baa1/BBB+)** with JPMorgan as bookrunner, priced \$200mm of 10yr unsecured notes at +225bps via a 144A with no registration rights transaction
 - This was NYSEG's first transaction since December 2006
 - The orderbook was composed of high quality insurance companies and asset managers
 - Dominion Resources (Baa2/BBB)** and its operating company, **Virginia Electric Power (Baa1/BBB)** priced \$1.4bn across 5, 10, and 30 senior unsecured bonds
 - The company ultimately priced 10yrs at the holding company at +210bps, and 5s and 30s at the operating company at +175 and +200bps, respectively
 - The current outstanding Virginia Electric Power long bond due May 2037 was trading at +165bps
- While the secondary market remains rather illiquid, and deals this week have come at significant concessions to secondary benchmarks (+25-45bps to cash), issuers remain focused on the attractive all-in coupons resulting from the recent rally in treasuries
- Furthermore, recent new issues have performed well in the secondary market providing a positive backdrop, and we expect issuance to remain active in the current week

Selected recent investment grade new issuance

Date	Issuer	Rating	Size	Coupon	Maturity	Spread
11/27	Dominion Resources Inc	Baa2/BBB	350	6.000%	11/30/2017	210
11/27	Virginia Electric Power	Baa1/BBB	500	5.100%	11/30/2012	175
11/27	Virginia Electric Power	Baa1/BBB	450	6.350%	11/30/2037	200
11/28	E.I. Du Pont de Nemours	A2/A	750	5.000%	11/15/2013	158
11/28	Kellogg Co	A3/BBB+	750	5.125%	12/01/2012	145
11/28	Pacific Gas & Electric	Baa1/BBB+	500	5.625%	11/30/2017	167
11/28	Prudential Financial Inc	A3/A+	750	6.310%	12/01/2017	215
11/28	Prudential Financial Inc	A3/A+	750	6.625%	12/01/2037	225
11/29	NY State Electric and Gas	Baa1/BBB+	200	6.150%	12/15/2017	225
11/29	Walt Disney Company	A2/A	750	4.700%	12/01/2012	115
11/29	General Electric Co	Aaa/AAA	4,000	5.250%	12/06/2017	140
11/29	Southwestern Electric Power	Baa1/BBB	300	5.875%	03/01/2018	200
11/29	PepsiCo Inc	Aa2/A+	1,000	4.650%	02/15/2013	128
11/29	Freddie Mac	Aa3/AA-	5,000	3.375%	PRF	-
11/29	Georgia Power Company	A2/A	100	6.050%	12/01/2038	-

Include indicatives utility and pipeline bonds

Utility and Pipeline new issue supply (\$Bn)



U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York
Week ending
December 7, 2007

Peter Madonia, MD (212) 834-3808
Amisha Mehra, ED (212) 834-4918
Heather Towner, VP (212) 834-4871
Steve Leamer, Assoc (212) 834-4084
Stephanie Wai, Analyst (212) 834-3117
Sarah Chessin, VP-Hybrids (212) 834-4073

Economic and Treasury market update

- Last week's economic data proved slightly better than anticipated and has marginally reduced recession risks
 - Vehicle sales and factory orders surprised on the upside
 - Friday's labor report revealed that the labor market had remained stable through November, lending a firm tone to the market
 - Nonfarm payrolls increased 94,000 last month, and the November jobless rate held at 4.66%, essentially unchanged from its reading in July when the credit market problems started
- Plans addressing subprime mortgage and SIV problems also buoyed the markets
 - President Bush and Treasury Secretary Paulson unveiled a plan to aid subprime mortgage borrowers with adjustable rate mortgages
 - Late on Friday, the SuperSIV fund (formerly known as M-LEC) announced its establishment with BlackRock as its manager
 - State and local government investment pools in Florida, Montana, Connecticut and Orange County revealed that they held downgraded, defaulted or subprime-related debt
- With the Fed revealing its awareness of deteriorating conditions in the credit market, the market is pricing in 35 bps of easing, and JPMorgan continues to forecast that the Fed will ease 25bps at both the December and January meetings before going on hold until 4Q08
- Volatility continues in treasury rates with both the 10yr and 30yr treasury yields up 25bps since the beginning of last week

JPMorgan interest rate forecast (%)

	1-Dec-07	1-Q 08	2-Q 08	3-Q 08	4-Q 08
Fed funds rate	4.50%	4.00%	4.00%	4.00%	4.50%
3m LIBOR	5.14%	4.40%	4.30%	4.45%	4.70%
2yr UST	3.31%	3.05%	3.20%	3.45%	4.20%
5yr UST	3.51%	3.55%	3.70%	3.85%	4.60%
10yr UST	4.12%	4.10%	4.20%	4.40%	5.05%
30yr UST*	4.58%	4.60%	4.70%	4.85%	5.45%
2s/10s curve	101 bps	105 bps	100 bps	95 bps	85 bps
10s/30s curve	46 bps	50 bps	50 bps	45 bps	40 bps

JPMorgan forecast as of 12/07/07, forecasts are for quarter-end
* 4.750% Treasury due Feb-2037

Historical treasury rates (%)

	5-year	10-year	30-year
Jan-07	4.50%	4.20%	4.70%
Mar-07	4.20%	3.90%	4.40%
May-07	4.50%	4.20%	4.70%
Jul-07	4.20%	3.90%	4.40%
Sep-07	4.50%	4.20%	4.70%
Dec-07	4.50%	4.20%	4.70%

Source: Bloomberg

Investment grade primary and secondary market update

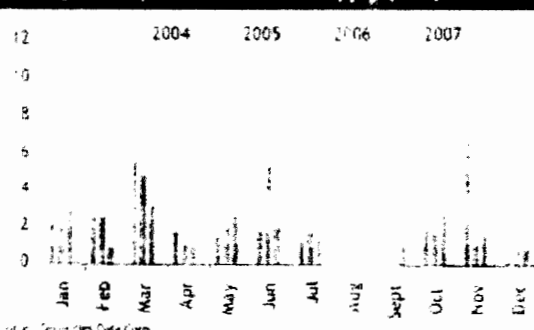
- This past week saw a heavy supply of new issuance with 28 deals pricing for over \$32bn in supply
 - The last two weeks have seen approximately \$65bn of issuance, close to \$3bn of which was from the utility sector
- A couple of utility issuers priced offerings:
 - West Penn Power (Baa2/BBB+) announced a \$275mm 10-year first mortgage bond 144A offering with JPMorgan as bookrunner
 - The orderbook quickly became oversubscribed, generating significant demand from high quality investors, allowing West Penn to price at T +200bps
 - Over 90% of the allocations were to insurance companies and asset managers
 - Alabama Power (A2/A) priced \$200mm of 5-year unsecured notes at -160bps
- Recent new issues have seen broader investor participation, including hedge funds who have been on the sidelines for the last few months, resulting in oversubscribed order books
- Most new issues are performing well in the secondary market partially due to many investors who have not been allocated their entire orders buying new deals when they are free to trade, and due to a sell off in UST yields last week
- The primary market continues to reprice the secondary market wider
 - Newly issued bonds are being priced significantly wide of secondary market levels
 - This is likely to limit the ability of the market to rally, and may cause it to widen given the magnitude of new issue discounts
- We expect issuance to be lighter in the current week in anticipation of the FOMC meeting on December 11

Selected recent investment grade new issuance

Date	Issuer	Rating	Size	Coupon	Maturity	Spread
12/3	AT&T Inc	A2/A	1,000	4.950	11/15/2013	170
12/3	AT&T Inc	A2/A	2,000	6.000	11/15/2038	180
12/3	Caterpillar Financial Services	A2/A	500	4.850	12/07/2012	155
12/4	Alabama Power Company	A2/A	200	4.950	12/15/2012	160
12/4	Baxter International	Aa3/A-	500	6.250	12/01/2037	188
12/4	United Technologies	A2/A	1,000	5.375	12/15/2017	150
12/4	Transocean Inc	Baa2/BBB+	500	5.250	11/15/2011	180
12/4	Transocean Inc	Baa2/BBB+	1,000	5.000	07/15/2018	185
12/4	Transocean Inc	Baa2/BBB+	1,000	4.950	03/15/2038	245
12/5	US Steel Corp	Baa3/BB-	300	7.000	02/01/2018	317.6
12/5	Kraft Foods Inc	Baa2/BBB+	2,000	6.125	02/01/2018	225
12/5	Kraft Foods Inc	Baa2/BBB+	1,000	6.875	02/01/2038	250
12/6	West Penn Power Co	Baa2/BBB+	275	5.950	12/15/2017	190
12/6	Danaher Corp	A2/A+	500	5.625	01/15/2018	170
12/6	Vulcan Materials	A3/A-	125	7.000	12/15/2010	241.25
12/6	Vulcan Materials	A3/A-	100	5.600	11/30/2012	125
12/6	Vulcan Materials	A3/A-	150	6.400	11/30/2017	140
12/6	Vulcan Materials	A3/A-	250	7.150	11/30/2037	170

* All spreads are bid-yield, please consult

Utility and Pipeline new issue supply (\$Bn)



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