



Mr. Tre Hargett  
Director  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

**VIA UPS OVERNIGHT DELIVERY**

September 2, 2008

**RE: Petition of Kentucky Utilities Company for an Order Authorizing the  
Issuance of Securities and the Assumption of Obligations**  
**Docket No. 08-00009**

Dear Mr. Hargett:

Pursuant to Finding No. 4 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 August 26, 2008, pursuant to the KPSC Order Authorizing the Issuance of Securities and the Assumption of Obligations, a report setting forth the loan provisions of a \$50,000,000 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.

2008 SEP 2 10 53 AM  
T.R. HARGETT  
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

Mr. Tre Hargett  
September 2, 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



RECEIVED  
2008 AUG 34 AM 9:50  
T.R.A. DOCKET ROOM

Ms. Stephanie L. Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

**Kentucky Utilities Company**  
State Regulation and Rates  
220 West Main Street  
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September 2, 2008

**RE: The application of Kentucky Utilities Company for an Order  
Authorizing the Issuance of Securities and the Assumption of  
Obligations (Case No. 2007-00548)**

Dear Ms. Stumbo:

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 August 26, 2008, KU borrowed \$50 million from Fidelity Corporation in  
accordance with the order issued February 13, 2008 in the above-referenced  
case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelity Corporation
Amount:	\$50 million
Maturity Date:	August 27, 2018
Interest Rate:	5.645%
Price Paid:	100%
Proceeds:	\$50 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	February 26 and August 26 of each year commencing February 26, 2009

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

Ms. Stephanie L. Stumbo  
September 2, 2008

The interest rate was set using the lowest rate quoted to KU at 1.79% above the yield on the ten-year treasury bond (3.855%). 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:

	<b>KU Pricing</b>	<b>E.ON AG Pricing</b>
Low bid above ten-year treasury	1.79%	
Ten-year treasury rate	3.855%	
All-in cost	5.645%	
Average bid above ten-year treasury		2.35%
Ten-year treasury rate		3.855%
All-in cost		6.205%

The 179 basis point spread for this ten year borrowing is comparable to that of two recent ten-year issuances from other energy companies with similar credit ratings and favorable to that of recent ten-year issuances from two other energy companies, one with a similar credit rating and one with a lower rating. (See table below along with attached support documentation).

<b>Issuer</b>	<b>Moody's / S&amp;P</b>	<b>Maturity</b>	<b>Spread</b>
Southern Cal Edison	A2 / A	8/15/2018	+ 155 bps
Public Service Colorado	A3/ A	8/1/2018	+ 175 bps
Orange & Rockland Utilities	A2/A-	8/15/2018	+238 bps
Entergy Louisiana	Baa1/A-	9/1/2018	+248 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

**KU Intercompany Loan with Fidelia  
Spread Comparison - August 21, 2008**

	10 Year	
	KU	E.ON AG
Barclays	1.79%	
Citi	1.79%	
JP Morgan	2.08%	
E.ON AG Quote #1 - RBS		2.35%
E.ON AG Quote #2 - Goldman Sachs		2.40%
E.ON AG Quote #3 - JP Morgan		2.30%
<b>Lowest Rate - KU, Avg. Rate - E.ON AG</b>	<b>1.79%</b>	<b>2.35%</b>
<b>US Treasury Rate at Pricing (KU 10yr)</b>	<b>3.855%</b>	<b>3.855%</b>
<b>All-in Rate</b>	<b>5.645%</b>	<b>6.205%</b>



Comparables

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

Issuer	Moody's	S&P	Amt	Cpn	Mty	08/21/08	
						Spread	Libor
Florida Power & Light*	Aa3	A	300	5.550%	11/17	+140	+75
Florida Power & Light*	Aa3	A	600	5.950%	02/38	+157	+116
Duke Energy Carolinas*	A2	A	300	5.100%	04/18	+150	+82
Duke Energy Carolinas*	A2	A	600	6.050%	04/38	+168	+127
Northern States Power - MN*	A2	A	500	5.250%	03/18	+160	+92
Northern States Power - MN*	A2	A	350	6.200%	07/37	+170	+129
PECO Energy*	A2	A	500	5.350%	03/18	+168	+101
PECO Energy*	A2	A	300	5.950%	10/36	+185	+145
Southern Cal Edison*	A2	A	400	5.500%	08/18	+160	+90
Southern Cal Edison*	A2	A	600	5.950%	02/38	+165	+124
Progress Energy Florida*	A2	A-	250	5.800%	09/17	+160	+96
Progress Energy Florida*	A2	A-	500	6.350%	09/37	+180	+139
Public Service Colorado*	A3	A	600	7.875%	10/12	+169	+84
Public Service Colorado*	A3	A	350	6.250%	09/37	+180	+139
PacificCorp*	A3	A-	200	5.450%	09/13	+182	+82
PacificCorp*	A3	A-	600	6.250%	10/37	+198	+157
Public Service El & Gas*	A3	A-	400	5.300%	05/18	+160	+91
Public Service El & Gas*	A3	A-	350	5.800%	05/37	+170	+129
Detroit Edison Company*	A3	A-	300	5.600%	06/18	+183	+114
Detroit Edison Company*	A3	A-	250	5.700%	10/37	+195	+154

↓ negative outlook ↔ outlook forming ↑ positive outlook ⚡ positive watch \*FMBs

Fixed Rate Issuance		10 Years
Benchmark		4% 8/18
Benchmark Yield		3.830%
Reoffer Spread		+170 - 175
Reoffer Yield		5.53% - 5.58%
Underwriting Commission		0.650%
All-in Yield		5.62% - 5.67%
Swapped to Libor Levels		
Swap Spread		+70
Reoffer versus LIBOR		\$L+100 - 105
All-in versus LIBOR		\$L+109 - 114

Benchmark and reoffer spreads as of 8/21/2008

New Issue  
Pricing

# Indicative First Mortgage Bond Pricing for Kentucky Utilities

*Rating: Moody's S&P: A1, stable/A1(stable)*

	10 NC/L
Benchmark	4.000% Aug '18
Benchmark Yield	3.83%
<b>Reoffer Spread</b>	<b>T+170 bp area</b>
Reoffer Yield	5.53%
Offering Price	100.000%
Underwriting Commission	0.650%
Proceeds to the Company	99.350%
All-In Cost of Funds	5.61%
<b>All-In Spread</b>	<b>T+179 bp</b>
Swap Spread (Mid)	71 bp
<b>Reoffer Spread to LIBOR</b>	<b>L + 100 bp</b>



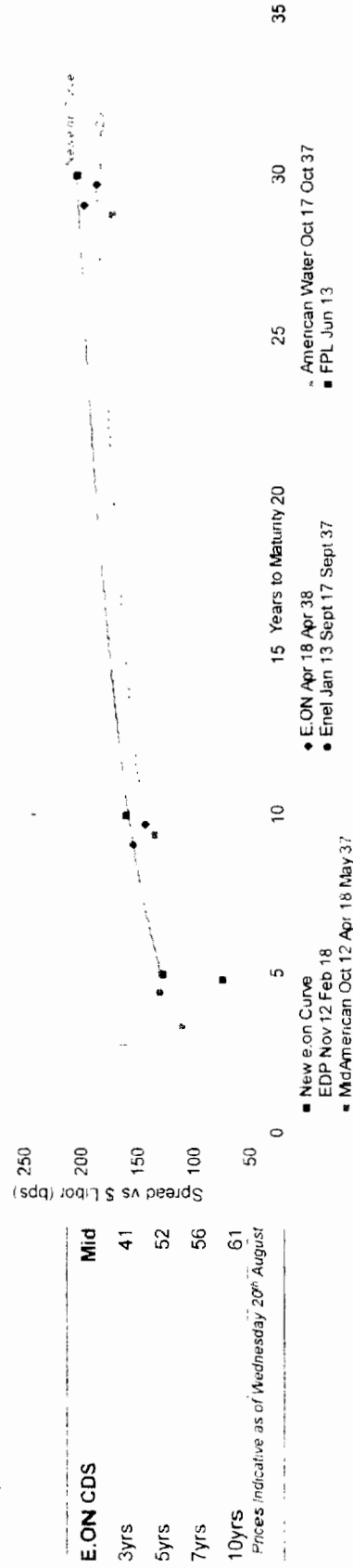
# Kentucky Utilities \$50MM offering indicative new issue pricing

Kentucky Utilities fixed rate pricing - A1/A, first mortgage bonds	
Maturity	10
Reference Treasury	4,000% 08/18
Treasury Yield	3.83
Reoffer Spread (bps)	200A
Coupon (%)	5.83
Amortized fees (bps)	8
All-in Cost (%)	5.91
Coupon swapped to 3mSL (bps)	129



# USD Senior Public Market Indications

USD Cash	Bid	Relative Value
E.ON Apr 18s	T+220/ \$L+145	300
E.ON Apr 38s	T+235/ \$L+189	



## USD Benchmark Pricing Indications

Currency	USD	USD	USD	USD	USD
Maturity	5yr Fixed (Sep-13)	10yr Fixed (Sep-18)	30yr Fixed (Sep-38)		
Benchmark	3.375% Jul 2013	4.0% Aug 2018	5.0% May 2037	5.0% May 2037	5.0% May 2037
Benchmark Yield (%)	3.06%	3.84%	4.47%	4.47%	4.47%
R/O vs US Treasury	230 Area	230 Area	235 Area	240 Area	250 Area
R/O vs \$ Libor	129 Area	156 Area	161 Area	195 Area	205 Area
R/O Yield (%)	5.36% Area	6.14% Area	6.19% Area	6.87% Area	6.97% Area
R/O vs. EUR MidSwap	112 bp Area	151 bp Area	154 bp Area	193 bp Area	202 bp Area
R/O EUR Yield	5.66% Area	6.15% Area	6.19% Area	6.69% Area	6.79% Area

# Indicative New Issue Pricing

As of 20-Aug-2008

Euro		3yr	5yr	7yr	10yr	12yr	15yr
Re-offer spread to € MS (bp)		+45bps	+60bps	+70bps	+85bps	+100bps	+120bps
Euro Mid Swap (%)		4.608%	4.541%	4.555%	4.642%	4.711%	4.782%
Re-offer yield (%)		5.06%	5.14%	5.26%	5.49%	5.71%	5.98%
GBP		10yr		20yr		30yr	
Re-offer spread to G (bp)		+140bps		+145bps		+155bps	
Gilts (%)		4.556%		4.693%		4.405%	
Re-offer yield (%)		5.956%		6.143%		5.955%	
Euro Mid Swap (%)		4.642%		4.816%		4.756%	
Re-offer spread to € MS (bp)		+87bps		+135bps		+155bps	
US\$		5yr		10yr		30yr	
Re-offer spread to US\$ (bp)		+235bps area		+240bps area		+245bps area	
Treasury yield (%)		2.988%		3.795%		4.437%	
Re-offer yield (%)		5.338%		5.195%		6.887%	
Euro Mid Swap (%)		4.541%		4.642%		4.756%	
Re-offer spread to € MS (bp)		+119bps area		+160bps area		+198bps area	
JPY		3yr		5yr			
Re-offer spread to JGB (bp)		+73bps		+83bps			
Benchmark yield (%)		0.815%		1.020%			
Re-offer yield (%)		1.545%		1.850%			
Euro Mid Swap (%)		4.608%		4.541%			
Re-offer spread to € MS (bp)		+50bps		+66bps			

## Comments on the Pricing Indication

- The market is still relatively quiet with no European corporate deals priced last week. So far this week, Duke Energy and 3M have issued debt in the US corporate market
- Compared to our last pricing indication on Wednesday we have tightened the Japanese pricing and widened the US pricing. We continue to see the Sterling market as a very attractive new issue market for E.ON, especially for longer maturities
- Indicative pricing assumes "benchmark" size in each market segment

# E.ON—market update and indicative pricing

## August 20<sup>th</sup>, 2008

### Comments

#### Eurobond Market

- The week has seen notably softer market sentiment fuelled by :  
Overhanging concerns about GSEs  
Much higher than anticipated inflation data - PPI ex food and energy at 0.7% vs. 0.2% est.  
Renewed concerns of further write-downs and need for recaps of major financial institutions
- The corporate primary market is expected to remain quiet for the remainder of this week, primarily owing to summer holidays, but also as a result of the uncertain backdrop prevailing in markets globally
- Fears of future write-downs and the fear that the US treasury may have to bail out Freddie Mac and Fannie Mae have further worsened sentiment

### Indicative pricing across markets

Indicative pricing for a EUR benchmark									
	2-year	3-year	5-year	7-year	10-year	12-year	15-year	20-year	30-year
Swap rate (p.a.; %)	4.73	4.62	4.54	4.56	4.65	4.71	4.78	4.82	4.76
Re-offer to midswaps (bps)	40-45	45-50	60-65	70-75	85-90	100-105	115-120	130-135	155-160
Re-offer yield (p.a.; %)	5.13	5.07	5.14	5.26	5.50	5.71	5.93	6.12	6.31
Coupon (p.a.; %)	5.125	5.000	5.125	5.250	5.500	5.625	5.875	6.000	6.250
Re-offer vs Euro mid swaps (bps)	40-45	45-50	60-65	70-75	85-90	100-105	115-120	130-135	155-160

Indicative pricing for a GBP benchmark									
	3-year	5-year	7-year	10-year	12-year	15-year	20-year	30-year	
Benchmark	Mar-11	Sep-14	Sep-15	Mar-18	Mar-20	Mar-25	Dec-28	Dec-38	
Benchmark yield (s.a.; %)	4.54	4.52	4.54	4.59	4.71	4.76	4.72	4.40	
Spread over benchmark (bps)	135-140	140-145	140-145	140-145	145-150	145-150	150-155	165-170	
Swap rate (s.a.; %)	5.47	5.38	5.27	5.14	5.08	4.99	4.82	4.55	
Re-offer to midswaps (bps)	42	54	67	85	108	122	140	150	
Re-offer yield (s.a.; %)	5.89	5.92	5.94	5.99	6.16	6.21	6.22	6.05	
Re-offer yield (p.a.; %)	5.98	6.01	6.03	6.08	6.25	6.31	6.32	6.14	
Coupon (p.a.; %)	5.875	6.000	6.000	6.000	6.250	6.250	6.250	6.125	
Re-offer vs Euro mid swaps (bps)	54-64	64-72	76-85	93-103	116-127	131-142	150-160	164-175	

Indicative pricing for a US\$ benchmark				5-year	10-year	30-year
Benchmark		Jul-13			Aug-18	May-37
Benchmark yield (s.a.; %)		3.04			3.81	4.44
Spread over benchmark (bps)		220A			230A	245A
Swap rate (s.a.; %)		4.15			4.64	5.99
Re-offer to midswaps (bps)		109			147	190
Re-offer yield (s.a.; %)		5.24			5.11	5.87
Coupon (s.a.; %)		5.125			5.000	5.875
Re-offer vs Euro mid swaps (bps)		105A			149A	202A

### Indicative tap pricing (€250mm)

Issuer	Ratings	Size (€mm)	Coupon	Maturity	Bid Z-Spread (bps)	Indicative tap level	
						Z-spread	Re-offer yield
E.ON	A2 / A	1,750	5.125	Oct-12	32	40-45	4.96%
E.ON	A2 / A	1,500	5.125	May-13	40	45-50	5.00%
E.ON	A2 / A	1,750	5.500	Oct-17	57	65-70	5.26%
Issuer	Ratings	Size (€mm)	Coupon	Maturity	Bid G-Spread (bps)	Indicative tap level	
						G-spread	Re-offer yield
E.ON	A2 / A	800	6.000	Oct-19	144	145-150	6.226%
E.ON	A2 / A	975	6.375	Jun-32	148	155-160	6.227%
E.ON	A2 / A	1,000	5.875	Oct-37	151	155-160	6.097%

Source: JPMorgan, August 20<sup>th</sup>, 2008

AVG = 3.895

GRAB

Govt ALLQ

US TREASURY N/B T 4 08/15/18

101-05+ / 101-06+

BGN @13:34

Additional Providers

Options

T 4 08/15/18

All Quotes

14:30:58

Buy Inquiry

Sell Inquiry

CBBT SPREAD VS T 4 08/15/18 Govt @

AXES BQ

Abbr	Firm Name	Bid Price / Ask Price	Bid Yield / Ask Yield	Bid Sz / Ask Sz (MM)	Time
CBBT	BONDRADER COMPOSITE	101-08+ / 101-09	3.846 / 3.844	0.0 / -0.0	14:30
MZZH	Mzuho Securities	101-08+ / 101-09	3.846 / 3.844	3.00	14:30
GXC	G X CLARKE	101-08+ / 101-09	3.846 / 3.844	3.00	14:30
DAB	DEUTSCHE BANK	101-08+ / 101-09	3.846 / 3.844	50.00	14:30
BDIR	Jefferies-BD	101-08+ / 101-09	3.846 / 3.844	10.00	14:30
MANB	MAN SECURITIES	101-08+ / 101-09	3.846 / 3.844	5.00	14:30
WVSAX	WALL STREET ADDRESS	101-08+ / 101-09	3.846 / 3.844	5.00	14:30
BARBT	BARCLAYS CAPITAL US	101-08+ / 101-09	3.846 / 3.844	50.00	14:30
MER	Merrill Lynch AutoEx	101-08+ / 101-09	3.846 / 3.844	10.00	14:30
BGR	BLOOMBERG GENERAL	101-08+ / 101-09	3.846 / 3.844	10.00	14:30
ML	MERRILL LYNCH	101-08+ / 101-09	3.846 / 3.844	10.00	14:30
PERS	Pershing LLC	101-08+ / 101-09	3.846 / 3.844	5.00	14:30
SCBX	STANDARD CHARTERED	101-08+ / 101-09	3.846 / 3.844	10.00	14:30
BSC	BEAR STEARNS	101-08+ / 101-09	3.846 / 3.844	5.00	14:30
BBT	BLOOMBERG BONDRADER	101-08+ / 101-09	3.846 / 3.844	10.00	14:30

☐ Firm Dealers Onl ☐ Enabled Dealers Only ☐ Executable Dealers Only

Executable

Not Executable

1st

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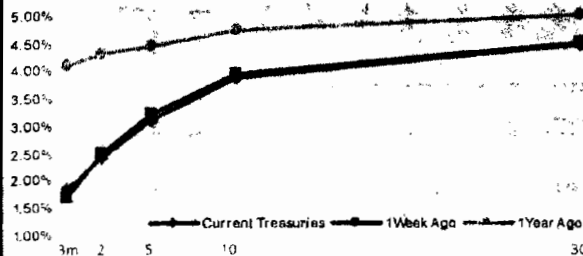
5th

Price Breakdown

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P. 6433-111-0 22-Aug-08 14:30:58

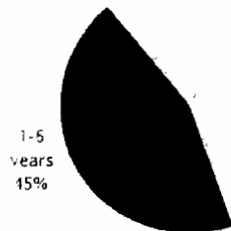
# Weekly Utility Debt Capital Markets Update (August 8 – August 15)

US Benchmark Rates

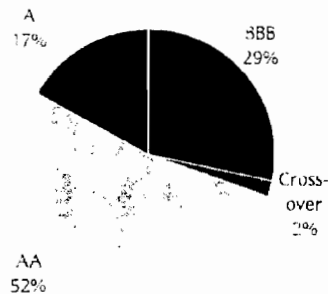


By Maturity

7-14 years  
55%

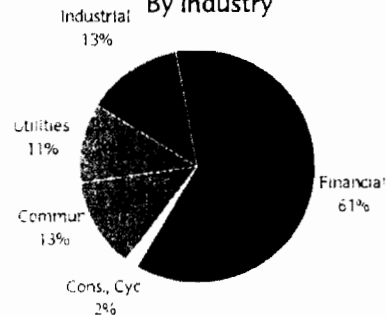


By Ratings

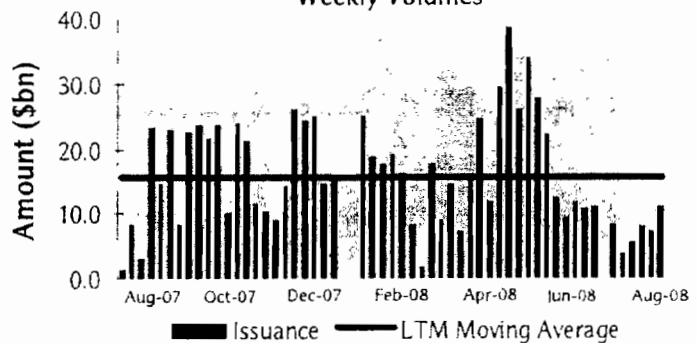


Treasury Yields		Swap Yields		Swap Spreads		Curve	
2yr	2.38% 2.50%	3.37% 3.44%	99	94		72 bps	2 bps
5yr	3.10% 3.20%	4.10% 4.18%	100	98			
7yr	2.64% 2.78%	4.35% 4.43%	171	165		74 bps	1 bps
10yr	3.84% 3.93%	4.58% 4.66%	74	73			
30yr	4.47% 4.54%	4.93% 4.99%	46	45		63 bps	2 bps

By Industry



Weekly Volumes



US New Issue Breakdown

US New Issues

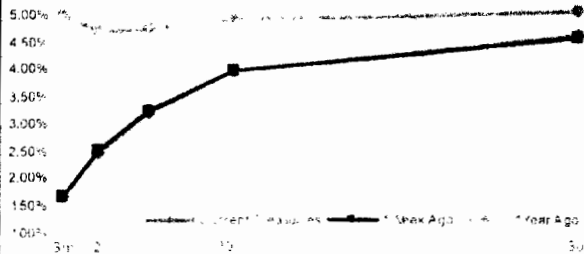
Issue Date	Issuer	Ratings		Amt (\$mm)	Coupon	Maturity	Spread	Industry
		Moodys	S&P					
08/14/08	JPMORGAN CHASE	A1	A	1,600	8.625%	perp	NCS	Financial
08/13/08	AMERICAN INTL GROUP	Aa3	AA-	3,250	8.250%	08/15/18	+433	Financial
08/13/08	SOUTHERN CO	A3	A-	600	L+70	08/20/10	+70	Utilities
08/12/08	INGERSOLL-RAND GL HLD CO	Baa1	BBB+	750	6.875%	08/15/18	+300	Industrial
08/12/08	INGERSOLL-RAND GL HLD CO	Baa1	BBB+	600	6.000%	08/15/13	+288	Industrial
08/12/08	INGERSOLL-RAND GL HLD CO	Baa1	BBB+	250	L+150	08/13/10	+150	Industrial
08/15/18	MET LIFE INC	A2	A	1,029	6.817%	08/15/18	+284	Financial
08/12/08	BRUNSWICK CORP	Baa3	BB+	250	9.750%	08/15/13	+657	Consumer, Cyclical
08/12/08	CITIGROUP INC	Aa3	AA-	3,000	6.500%	08/19/13	+338	Financial
08/11/08	DEUTSCHE TELEKOM INT FIN	Baa1	BBB+	850	6.750%	08/20/18	+275	Communications
08/11/08	DEUTSCHE TELEKOM INT FIN	Baa1	BBB+	650	5.875%	08/20/13	+265	Communications
08/11/08	ENTERGY LOUISIANA LLC	Baa1	A-	300	6.500%	09/01/18	+248	Utilities
08/11/08	SOUTHERN CAL EDISON	A2	A	400	5.500%	08/15/18	+155	Utilities

This presentation has been prepared by the issuer or its agent and is not intended to constitute an offer of securities. It is not intended to be relied upon as a basis for investment decisions. The information contained herein is not intended to be used for any purpose other than the one for which it is provided. The issuer or its agent does not warrant the accuracy or completeness of the information contained herein. The issuer or its agent does not accept any liability for any loss or damage arising from the use of this information. The information contained herein is not intended to be used for any purpose other than the one for which it is provided. The issuer or its agent does not warrant the accuracy or completeness of the information contained herein. The issuer or its agent does not accept any liability for any loss or damage arising from the use of this information.

Mike Mangrove 212 412 1000  
Mike Mangrove 212 412 1000  
Mike Mangrove 212 412 1000  
Mike Mangrove 212 412 1000

# Weekly Utility Debt Capital Markets Update (August 1 – August 8)

## US Benchmark Rates



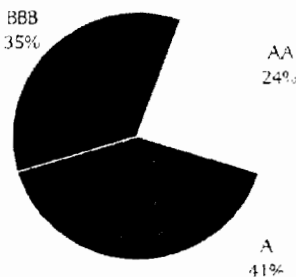
	Treasury	Corp	Swap Index	Swap Spread	Curve
2yr	2.44%	2.50%	3.41%	3.42%	97 92
5yr	3.11%	3.21%	4.19%	4.13%	102 92
7yr	2.71%	2.77%	4.16%	4.10%	175 153
10yr	3.94%	3.93%	4.71%	4.64%	77 71
30yr	1.58%	1.56%	5.06%	4.99%	48 43

## US\$ New Issue Breakdown

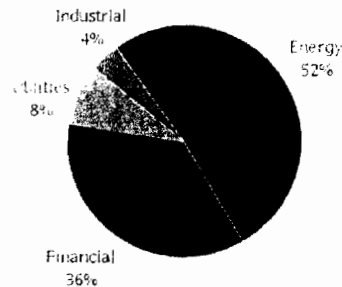
### By Maturity



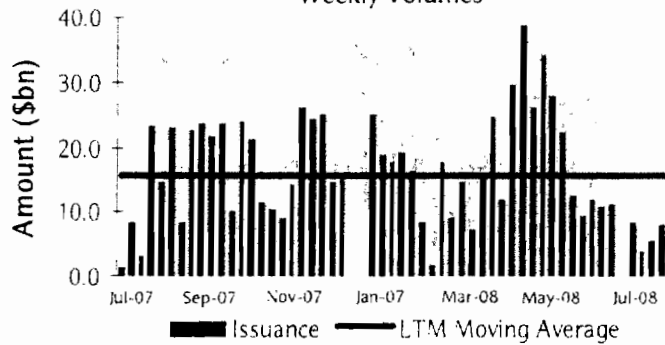
### By Ratings



### By Industry



### Weekly Volumes



## US\$ New Issues

Date	Issuer	Rating	Amount (\$bn)	Yield (%)	Term	Spread (bps)	Industry
08/07/08	CATERPILLAR FINANCE	A2 A	550	L + 50	08/06/10	+50	Financial
08/07/08	CATERPILLAR FINANCE	A2 A	300	4.900%	08/15/13	+175	Financial
08/07/08	CME GROUP	Aa3 AA	300	L + 65	08/06/10	+65	Financial
08/07/08	CME GROUP	Aa3 AA	750	5.400%	08/01/13	+225	Financial
08/06/08	NORTHERN TRUST CO	A1 ↑ AA-	400	5.500%	08/15/13	+228	Financial
08/06/08	NORTHERN TRUST CO	A1 ↑ AA-	300	6.500%	08/15/18	+248	Financial
08/06/08	PUBLIC SERVICE COLORADO	A3 A	300	5.800%	08/01/18	+175	Utilities
08/06/08	PUBLIC SERVICE COLORADO	A3 A	300	6.500%	08/01/38	+185	Utilities
08/06/08	TRANSCANADA PIPELINES	A3 A-	850	6.500%	08/15/18	+245	Energy
08/06/08	TRANSCANADA PIPELINES	A3 A-	650	7.250%	08/15/38	+255	Energy
08/04/08	XTO ENERGY INC	Baa2 BBB	250	5.000%	08/01/10	+248	Energy
08/04/08	XTO ENERGY INC	Baa2 BBB	500	5.750%	12/15/13	+253	Energy
08/04/08	XTO ENERGY INC	Baa2 BBB	1,000	6.500%	12/15/18	+258	Energy
08/04/08	XTO ENERGY INC	Baa2 BBB	500	6.750%	08/01/37	+263	Energy
08/04/08	RYDER SYSTEMS INC	Baa1 BBB+	300	7.200%	09/01/15	+375	Industrial

# Capital Markets Update

CITI

Wednesday, August 20, 2008

## Treasury Yield Curve

Maturity	8/20/08	Daily Change
2-year	2.25%	-7 bp
5-year	3.01%	-6 bp
10-year	3.80%	-4 bp
30-year (2/2038)	4.44% (4.44%)	-3 bp (-3 bp)
10-yr Swap (mid)	+71 bp	-4 bp
Euro (€/euro)	147.46	-0.39
Oil (Sep WTI)	114.93	-0.45
Gas (Sep Henry)	8.08	+0.11
3-Month LIBOR	2.81063%	0.001 bp
CDOX IG10 (5 Yr)	+144.9 bp	+1.3 bp

## Equity Market Movers

	8/20/08	Daily Change	% Chg
DJIA	11,417.43	+68.88	+0.61%
S&P 500	1,274.54	+7.85	+0.62%
Nasdaq	2,389.08	+4.72	+0.20%
Nikkei	12,851.60	-13.36	-0.10%
UTY	497.40	+3.14	+0.64%
CFG	64.52	+1.90	+3.03%
PNM	11.85	-0.16	-1.33%
PCG	40.50	+0.50	+1.25%
AYE	44.44	-0.50	-1.14%

## Economic Data at Bat

Release	Prev	Citi	Street
Initial Jobless Claims	450K	450K	440K
Leading Indicators	0.0%	-0.5%	-0.2%
Philly Fed Survey	-16.3%	-15.0%	12.6%

## Power Industry Announcements

**REPOWERING IN TX.** ArcLight Capital Partners LLC said that it has invested in NuCoastal Power Group LLC, which has been acquiring and redeveloping certain mothballed power plants in Texas. The new company will be renamed ReNu Power LLC. ArcLight's capital commitment to NuCoastal Power is sufficient to fund the development of the portfolio. Permitting for all of the development plants has been completed, as well as procurement of most of the major equipment needed to transform the older plants into higher-efficiency, lower-cost producers, the companies said. Of the five power plant sites, four are being repowered as gas-fired plants; the fifth plant will be repowered as a solid-fuel, petroleum coke plant. In total, the portfolio represents 1,500 MW of capacity.

**XEL COAL PLANTS IN CO.** State regulators have approved a plan by Xcel Energy Inc.'s Public Service Company of Colorado to shut down two coal-fired power plants (229 MW) in Colorado, citing benefits to public health and concerns about CO2 emissions. The closures are two to four years away, and Xcel has proposed using natural gas to make up for the lost power supplies.

**SRE CREDIT FACILITY.** Sempra Energy said its Sempra Global, Sempra Generation, San Diego Gas & Electric Co. and Southern California Gas Co. subsidiaries entered into three separate three-year revolving credit agreements on Aug. 15. Sempra Global's credit facility permits revolving credit borrowings of up to \$2.5bn through Aug. 15, 2011, and also provides for the issuance of up to \$300 million of letters of credit on behalf of Sempra Global with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit, the company said. Sempra Global entered into the credit agreement with a syndicate of lenders, with Citibank NA serving as administrative agent. Sempra Generation's credit facility permits revolving credit borrowings of

## Treasury Market

Treasury prices rose on increased speculation that the government will take over Freddie Mac after the WSJ reported that officials from the Treasury and Freddie may meet. Yields fell the most in the short end of the curve with the two-year falling 7 bp and the 10-year yield falling 4 bp. Minneapolis Fed President Stern said action that has been taken on Freddie has been "appropriate given the risks" but now "would not be an appropriate time to close" the GSE. Speaking on monetary policy he said, "Now is a good time to be patient because I do think we will see better news on the inflation front" as he expects lower oil prices to temper headline inflation. This contradicts comments made Tuesday by Dallas Fed President Richard Fisher who suggested the Fed must be ready to increase rates if inflation expectations do not recede.

## Equity Market

Equities closed higher after energy shares rallied on analysts' forecast for higher oil prices and a strong earnings report from Dow component Hewlett-Packard. The Dow and S&P 500 closed 0.6% higher, while the Nasdaq finished the day up 0.2%. Utilities performed in-line with the UTY closing 0.6% higher. Hewlett-Packard rose 5.7%, the most in the Dow, after posting an 11% rise in Q3 profit from a year ago on better sales and growth in all of its main business areas. Concerns about Freddie and Fannie led financials lower early on, but short-covering throughout the day drove the sector into positive territory. Freddie and Fannie closed 22% and 19% lower, respectively. Oil prices ended the day \$0.45 higher even after the DOE reported that oil inventories rose by 9.4 million barrels compared the expected 1.0 million barrel rise. The rise in prices was attributed to analyst forecasts that oil will rise above \$140 by year-end.

## Economic Announcements

There were no significant economic data releases on Wednesday. The weekly initial jobless claim data will be released on Thursday morning followed by leading economic indicators and the Philadelphia Fed survey.

up to \$1 billion through Aug. 15, 2011, the subsidiary said. The combined credit facility of SDG&E and SoCalGas permits revolving credit borrowings by each utility of up to \$600 million through Aug. 15, 2011, subject to a combined borrowing limit for both utilities of \$800 million, Sempra said. Concurrently with the effectiveness of these credit agreements, several facilities were also terminated.

**SCANA NUKE.** State utility regulators will discuss appointing a hearing officer to determine when hearings will be held on South Carolina Electric & Gas Co.'s request to build two nuclear reactors in SC. Attorneys for the South Carolina Energy Users Committee and CMC Steel South Carolina asked the PSC to delay hearings on the company's request from October until January so they can have more time to review the application.

**PNM SALE OF GAS.** An agreement among parties that supports approval of the pending \$620 million sale of the PNM natural gas operations to New Mexico Gas Company has been filed today with state regulators, PNM Resources announced. The Hearing Examiner assigned to the case has scheduled hearings to start Sept. 16.

**RENEWABLES IN NYC.** New York City's Economic Development Corp. on Aug. 19 released a request for expressions of interest, a move that marks the city's first step toward developing new sources of renewable energy, according to New York City Mayor Michael Bloomberg. Speaking at a clean energy summit in Las Vegas, Bloomberg said the ideas could include offshore wind farms, wind turbines atop the city's bridges and skyscrapers, and tidal and solar power. The request, responses to which are due Sept. 19, is part of the city's PlaNYC, a wide-ranging effort to make the city more sustainable by 2030. Part of the plan's effort includes spending \$2.3bn to cut energy consumption and greenhouse gas emissions from the city's municipal buildings and operations.

## Corporate Financing Activity

Orange and Rockland Utilities, Inc., a subsidiary of Consolidated Edison, Inc., priced \$50 million of 10-year 144A Debentures at a spread of +237.5 bp. The utility was last in the market on Oct. 4, 2006 when it priced \$75mm of 10-year Debentures at a spread of +90 bp. Citi acted as the sole manager. A \$278.4-million offering of System Restoration Bonds was priced in three tranches on Wednesday. The Bonds are issued pursuant to Louisiana's Act 55 (or the "Restoration Law") and a Financing Order issued in April 2008 by the Louisiana PSC. The offering was structured with three tranches with average lives of 2.66 years, 6.24 years and 8.97 years. The issuer was the Louisiana Public Facilities Authority, a well-established multi-purpose conduit issuer in the state of Louisiana. The Bonds are funded primarily by the collection of System Restoration Charges from customers of Entergy Gulf States Louisiana, L.L.C., a utility subsidiary of Entergy Corp. The net proceeds of the offering will be contributed to the utility as a (non-shareholder) capital contribution. The size of the transaction reflected LPSC-approved "system restoration costs" following Hurricanes Katrina and Rita and an amount to fund storm damage reserves. The Restoration Law was passed by the Louisiana legislature in June 2007 to enable a new financing structure to provide utilities with low-cost capital, following the unprecedented damage from the 2005 hurricane season. This transaction follows a similar \$687.7-million three-tranche offering for Entergy Louisiana, LLC, priced on July 22, 2008. Citi was a bookrunner on both System Restoration Bond offerings.

Issuer	Ratings	\$mm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
Orange and Rockland Utilities	A2/A-	\$50	10 NC/L	6.150%	+237.5 bp	T-40	-	Sole Books	144A for life



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

**VIA UPS OVERNIGHT DELIVERY**

September 2, 2008

**RE: Kentucky Utilities Company (Case No. PUE-2007-00118)  
Preliminary Report of Action**

Dear Mr. Peck:

Pursuant to the Commission's Order, Ordering Paragraph No. 3, dated January 16, 2008, 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 August 26, 2008 KU/ODP borrowed \$50 million from Fidelity Corporation in accordance with the order issued January 16, 2008 in the above-referenced case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelity Corporation
Amount:	\$50 million
Maturity Date:	August 27, 2018
Interest Rate:	5.645%
Price Paid:	100%
Proceeds:	\$50 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	February 26 and August 26 of each year commencing February 26, 2009

**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  
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The proceeds of the loan were used to fund capital projects described in the application. KU elected to issue a 10 year loan to lock in historically attractive long-term rates, but avoid the significant increase in rates beyond ten years.

The interest rate was set using the lowest rate quoted to KU at 1.79% above the yield on the ten-year treasury bond (3.855%). 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:

	<b>KU Pricing</b>	<b>E.ON AG Pricing</b>
Low bid above ten-year treasury	1.79%	
Ten-year treasury rate	3.855%	
All-in cost	5.645%	
Avg. bid above ten-year treasury		2.35%
Ten-year treasury rate		3.855%
All-in cost		6.205%

The 179 basis point spread for this ten year borrowing is comparable to that of two recent ten-year issuances from other energy companies with similar credit ratings and favorable to that of recent ten-year issuances from two other energy companies, one with a similar credit rating and one with a lower rating. (See table below)

<b>Issuer</b>	<b>Moody's / S&amp;P</b>	<b>Maturity</b>	<b>Spread</b>
Southern Cal Edison	A2 / A	8/15/2018	+ 155 bps
Public Service Colorado	A3/ A	8/1/2018	+ 175 bps
Orange & Rockland Utilities	A2/A-	8/15/2018	+238 bps
Entergy Louisiana	Baa1/A-	9/1/2018	+248 bps

Mr. Joel Peck  
September 2, 2008

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", with a stylized flourish at the end.

Rick E. Lovekamp