



Elizabeth O'Donnell
 Executive Director
 Kentucky Public Service Commission
 211 Sower Boulevard
 Frankfort, Kentucky 40602-0615

RECEIVED

NOV 07 2006

PUBLIC SERVICE
 COMMISSION

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

November 3, 2006

RE: Kentucky Utilities Company (Case No. 2006-00155)

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 October 25, 2006, KU borrowed \$50 million from Fidelity Corporation in accordance with the order issued May 22, 2006 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:	October 25, 2016
Interest Rate:	5.675%
Price Paid:	100%
Proceeds:	\$50 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	April 25 and October 25 commencing April 25, 2007

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

The interest rate was set using the lowest rate quoted to KU at 0.84% above the yield on the ten-year treasury bond (4.835%). 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 ten-year treasury	0.840%	
Ten-year treasury rate	4.835%	
All-in cost	5.675%	
Average bid above ten-year treasury		0.870%
Ten-year treasury rate		4.835%
All-in cost		5.705%

The 84 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
Conoco Phillips	A1 / A	10/15/2016	+ 87 bps
Orange and Rockland	A2 / A	10/01/2016	+ 90 bps
Consolidated Edison	A1 / A	9/15/2016	+ 83 bps
UGI Utilities Inc.	A3 / A	9/30/2016	+ 98 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 at (502)627-3780 or contact Don Harris at (502)627-2021.

Sincerely,



Rick E. Lovekamp

cc: Dan Arbough
Kendrick Riggs

**KU Intercompany Loan with Fidelity (\$50MM)
Spread Comparison - October 23, 2006**

	<u>KU</u>	<u>E.ON AG</u>
Lehman Brothers	0.88%	
Wachovia	0.84%	
Merrill Lynch	0.89%	
UBS		0.90%
Morgan Stanley		0.90%
ABNAmro		0.81%
Lowest Rate - KU, Avg. Rate - E.ON AG	0.84%	0.87%
10-Year US Treasury Rate at Pricing	4.835%	
All-in Rate	5.675%	

GRAB Govt ALLQ

Screen Printed

Additional Providers: Options T4 7g 08/15/16 All Quotes 16:00:53

BUY Inquiry Sell Inquiry AXES BQ

SPREAD vs T4 7g 08/15/16 Govt @ 100-09+ / 100-10 4.836 / 4.834 0.0 / 0.0 bps

Abbr	Firm Name	Bid Price / Ask Price	Bid Yield / Ask Yield	Bid Sz X Ask Sz (Mtm)	Time
CBBT	BONDTRADER COMPOSITE	100-09+ / 100-10	4.836 / 4.834	X	16:00
ML	MERRILL LYNCH	100-09+ / 100-10	4.836 / 4.834	10 x 10	16:00
ZNBK	ZIONS BANK	100-09+ / 100-10	4.836 / 4.834	2 x 2	16:00
GXC	G X CLARKE	100-09 ¹ / ₄ / 100-10 ¹ / ₄	4.837 / 4.833	9 x 9	16:00
BDIR	Jefferies-BD	100-09+ / 100-10	4.836 / 4.834	5 x 5	16:00
DSAI	DAIWA SECURITIES AM	100-09+ / 100-10	4.836 / 4.834	5 x 5	16:00
MZ	MIZUHO SECS. USA	100-09+ / 100-10	4.836 / 4.834	40 x 40	16:00
WSAX	WALL STREET ACCESS	100-09+ / 100-10	4.836 / 4.834	5 x 5	16:00
BART	BARCLAYS CAPITAL UST	100-09+ / 100-10	4.836 / 4.834	50 x 50	16:00
BGN	BLOOMBERG GENERIC	100-09+ / 100-10+	4.836 / 4.832	X	16:00
PERT	Pershing LLC	100-09+ / 100-10 ¹ / ₄	4.836 / 4.833	1 x 1	16:00
BSC	BEAR STEARNS N Y	100-09+ / 100-10	4.836 / 4.834	5 x 5	16:00
BBT	BLOOMBERG BONDTRADER	100-09+ / 100-10	4.836 / 4.834	50 x 50	16:00
AUS	ABN Amro - USA	100-09+ / 100-10	4.836 / 4.836	25 x 25	16:00
BBT3	BBT - FUTURES CLOSE	100-22+ / 100-23	4.783 / 4.781	5 x 10	0:00

Enabled Dealers Only Blue = Enabled Dealers 1st BBT 2nd 3rd 4th 5th No
 Executable Dealers Only Grey = Does not monitor White = Executable Green = Best bid/ask Price Individually

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
 G433-111-0 23-Oct-06 16:00:53

Confidential Presentation to:

Kentucky Utilities

Indicative New Issue Pricing

October 17, 2006

LEHMAN BROTHERS

Summary Terms for Kentucky Utilities

Kentucky Utilities

Summary Terms for Underwritten US-Domestic First Mortgage Bond Assumes Secured Debt Ratings of A1 / A

Security	First Mortgage Bond
Maturity	10 yrs
Ratings	A1 / A
Optionality	Non-call
Treasury Benchmark	10-yr Treasury
Treasury Yield	4.77%
Re-offer Spread	+ 80 bps
Re-offer Yield	5.57%
Gross Spread:	0.65%
Amortization of Gross Spread:	0.08%
Semiannual All-in Cost:	5.65%

US Treasury Rate as of October 17, 2006

Kentucky Utilities Company

October 17, 2006

Market	Institutional
Tenor	10 year
Amount	\$50.0
Structure / Security	First Mortgage
Ratings	A1 / A
Pay Frequency	Semi-Annual
Reference Benchmark	10 YR UST
Benchmark Yield	4.76%
Reoffer Spread	75 bps area
Reoffer Yield	5.51% area
Underwriting Fee	0.650%
All-In Yield	5.60%
All-In Spread	84 bps
Mid Swap Rate	5.30%
Reoffer Floating Rate Spread	21 bps
All-In Floating Rate Spread	30 bps

"Area" defined as +/- 2 to 3 bps.

New Issue Pricing Indications

Kentucky Utilities

Indicative Pricing: First Mortgage Bonds (Assumed Ratings of A1/A)

Maturity	10 Year
Coupon Type	Fixed
Reset/Payment	NA/Semi
Call Provision	Make-Whole
Benchmark	UST 4.875% due 8/16
Benchmark Yield	4.756%
Reoffering Spread	T + 80 bps Area
Reoffer Yield	5.556%
Underwriting Commissions	0.650%
All-in Yield	5.642%
All-in Spread	T + 89 bps Area



Pricing indications as of October 17, 2006. Assumes a new issue settlement date of October 20, 2006, with interest accruing from October 20, 2006. All yields are quoted on a semiannual basis. Based upon First Mortgage Bond ratings of A1/A.

Disclaimers

Merrill Lynch prohibits (a) employees from, directly or indirectly, offering a favorable research rating or specific price target, or offering to change such rating or price target, as consideration or inducement for the receipt of business or for compensation, and (b) Research Analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investor clients.

This proposal is confidential, for your private use only, and may not be shared with others (other than your advisors) without Merrill Lynch's written permission, except that you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the proposal and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For purposes of the preceding sentence, tax refers to U.S. federal and state tax.

This proposal is for discussion purposes only. Merrill Lynch is not an expert on, and does not render opinions regarding, legal, accounting, regulatory or tax matters. You should consult with your advisors concerning these matters before undertaking the proposed transaction.



Horne, Elliott

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Friday, October 20, 2006 3:00 AM
To: Arbough, Dan; Horne, Elliott
Subject: WG: E.ON USD 10yr spreads

-----Ursprüngliche Nachricht-----

Von: matthias.stieber@uk.abnamro.com [mailto:matthias.stieber@uk.abnamro.com]
Gesendet: Donnerstag, 19. Oktober 2006 17:20
An: Heintzen, Lioba
Betreff: E.ON USD 10yr spreads

Dear Ms. Heintzen,

please find below the indicative all-in spreads for a E.ON USD 50 mln 10 year transaction:

Treasuries +81bp
3m USD Libor +27bp

I hope this information is useful.

Kind regards,

Matthias Stieber
Corporate Origination
ABN AMRO
250 Bishopsgate
London EC2M 4AA
UK

Phone: +44 (0) 207 678 3537
Fax: +44 (0) 207 678 3597
Mob: +44 (0) 7769 674 415

This message (including any attachments) is confidential and may be privileged. If you have received it by mistake please notify the sender by return e-mail and delete this message from your system. Any unauthorised use or dissemination of this message in whole or in part is strictly prohibited. Please note that e-mails are susceptible to change. ABN AMRO Bank N.V, which has its seat at Amsterdam, the Netherlands, and is registered in the Commercial Register under number 33002587, including its group companies, shall not be liable for the improper or incomplete transmission of the information contained in this communication nor for any delay in its receipt or damage to your system. ABN AMRO Bank N.V. (or its group companies) does not guarantee that the integrity of this communication has been maintained nor that this communication is free of viruses, interceptions or interference.

The information contained in this transmission is intended only for the person or entity to which it is directly addressed or copied. It may contain material of confidential and/or private nature. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is not allowed. If you received this message and the information contained therein by error, please contact the sender and delete the material from your/any storage medium.

Von: Lingnau, Philipp (GCM) [Philipp.Lingnau@morganstanley.com]

Gesendet: Donnerstag, 19. Oktober 2006 18:34

An: Heintzen, Lioba

Cc: Bilo, Stephanie (GCM)

Betreff: RE: Spread

Hallo Frau Heintzen,

S+ 35 BP

T+ 90 BP

Mit freundlichen Grüßen

Philipp Lingnau

Philipp Lingnau - Executive Director

Morgan Stanley | Global Capital Markets
20 Cabot Square | Canary Wharf | Floor 01
London, E14 4QW
Phone: +44 20 7677-6816
Mobile: +44 77474-55575
Fax: +44 20 7056-1132
Philipp.Lingnau@morganstanley.com

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]

Sent: 19 October 2006 09:30

To: Lingnau, Philipp (GCM)

Cc: Bilo, Stephanie (GCM)

Subject: Spread

Hallo,

ich brauche mal wieder einen Spread für rein interne Zwecke. Und zwar den all-in spread, den die E.ON AG über Treasuries und über Swaps zahlen müßte für ein privat placement in US 50m für eine Laufzeit von 10 Jahren.

Vielen Dank!

Mit freundlichen Grüßen / Kind regards

Lioba Heintzen
E.ON AG / Treasury
E.ON-Platz 1
40479 Düsseldorf

p: 0049 (0) 211 4579 655

f: 0049 (0) 211 4579 669

m: lioba.heintzen@eon.com

The information contained in this transmission is intended only for the person or entity to which it is directly addressed or copied. It may contain material of confidential and/or private nature. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information

by persons or entities other than the intended recipient is not allowed. If you received this message and the information contained therein by error, please contact the sender and delete the material from your/any storage medium.

NOTICE: If received in error, please destroy and notify sender. Sender does not intend to waive confidentiality or privilege. Use of this email is prohibited when received in error.

Horne, Elliott

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Friday, October 20, 2006 8:39 AM
To: Arbough, Dan; Horne, Elliott
Subject: WG: Indication for USD 50m private placement
Attachments: Legal Disclaimer

No 3

Von: Christian.Hirsch@ubs.com [mailto:Christian.Hirsch@ubs.com]
Gesendet: Freitag, 20. Oktober 2006 14:29
An: Heintzen, Lioba
Cc: Tilo.Kraus@ubs.com
Betreff: Indication for USD 50m private placement

Good afternoon,

As requested we send you our indication for a USD 50m private placement: 10y Treasury + 90bps or USD Libor + 35bps

The prices are based on the following data:
10y CDS on E.on: 35bps
ASW on EOAGR 6.375% 2017: 19bps

The private placement characteristics, the relatively small size and the limited appearance of E.on in the US justify - according to our syndicate - a premium over a comparable 144A issuance by E.on.

We hope the indication is helpful.

Kind regards,

Christian Hirsch

UBS Investment Bank

Christian Hirsch
Debt Capital Markets/Derivatives

Tel.: +44 207 567 3544
Fax.: +44 207 567 2411

The information contained in this transmission is intended only for the person or entity to which it is directly addressed or copied. It may contain material of confidential and/or private nature. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is not allowed. If you received this message and the information contained therein by error, please contact the sender and delete the material from

11/2/2006

your/any storage medium.

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York
Week ending
Oct 13, 2006

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

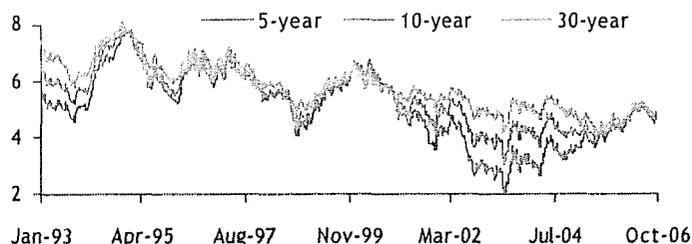
- The minutes of the September 20 FOMC meeting show a Fed that is on hold as it continues to monitor the economy
- The US trade deficit widened to a new record \$69.9 billion in August from July's \$68.0 billion; however, a combination of lower petroleum prices, lower imports, and strong exports should lead to a significant reduction in the deficit in the coming months
- The Fed's Beige Book indicated that consumer spending and demand for services increased during September
- Retail sales excluding gasoline rose 0.6% last month according to a report released by the Commerce Department
 - Overall retail sales fell 0.4% after a 0.1% August gain
- The University of Michigan said its preliminary index of consumer sentiment rose to 92.3 in October, the highest since July 2005 and considerably up from the 85.4 reading in September
 - The rise was attributed to lower gasoline prices, which encouraged increased spending on clothing, furniture, and building materials
- This week, the market will be focused on inflation data ahead of next week's FOMC meeting
- US Treasury prices fell substantially late last week after reports showed a surge in consumer confidence and a gain in retail sales
 - 10- & 30-yr benchmark yields each jumped 10bp last week finishing at 4.80% and 4.94%, respectively
 - 10-year notes have sold off 25bps over the past three weeks
 - 2s/5s curve is currently inverted by 10bps

JPMorgan interest rate forecast (%)

	13-Oct-06	4Q 06	1Q 07	2Q 07	3Q 07
Fed Funds rate	5.25%	5.25%	5.50%	6.00%	6.00%
3m LIBOR	5.37%	5.45%	5.70%	6.15%	6.15%
2yr UST	4.87%	4.95%	5.15%	5.65%	5.70%
5yr UST	4.77%	4.90%	5.10%	5.60%	5.65%
10yr UST	4.80%	5.00%	5.20%	5.65%	5.70%
30yr UST	4.94%	5.05%	5.25%	5.65%	5.70%
10s/30s curve	14 bps	5 bps	5 bps	Flat	Flat

JPMorgan forecast as of 10/13/06; forecasts are for quarter-end

Historical treasury rates (%)



Source: Bloomberg

High grade primary and secondary market update

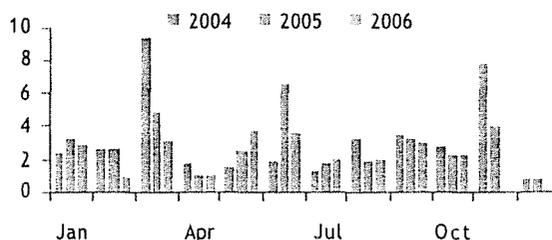
- Just under \$9 billion of new issuance priced last week, some notable offerings include:
 - Baltimore Gas & Electric (Baa2/BBB+)**, an operating company of Constellation Energy Group, issued \$300MM 10yr and \$400MM 30yr senior unsecured notes at +115bp and +145bp, respectively
 - ConocoPhillips (A1/A)** issued \$2.1Bn across three tranches: \$350MM 5.5yr at +63bp, \$1.25Bn 10yr at +87bp and \$500MM 30yr at +108bp
 - Realogy Corporation (Baa2/BBB)** priced \$1.2 billion (upsized from \$800mm) across three tranches (3NC1 FRN, 5- and 10-yr fixed)
 - This was a debut offering for the publicly traded real estate company that was spun out of Cendant Corporation
 - Change of control put and coupon step-ups included, as investors remain focused on structural adjustments for certain credits
- New issuance has softened in recent weeks as October supply remains manageable with \$22 billion issued thus far
 - Many issuers have already tapped into the market before the 4th-quarter, while others are now facing black-out periods
 - The modest forward new issue calendar should bode well for secondary spreads after September's heavy supply
- 2006 utility and pipeline sector new issuance volume stands at \$25Bn, which is down 14% from same period last year (\$29Bn in 2005)
 - However, October utility and pipeline supply has been heavy when compared to the rest of the market
 - \$2.2Bn of supply has priced thus far in October, nearing the \$2.5Bn 2006 monthly average for the sector

Selected high grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
10/10	CONOCOPHILLIPS	A1/A	350	5.300	04/15/2012	63
10/10	CONOCOPHILLIPS	A1/A	1250	5.625	10/15/2016	87
10/10	CONOCOPHILLIPS	A1/A	500	5.950	10/15/2036	108
10/11	BALTIMORE GAS & ELECTRIC	Baa2/BBB+	300	5.900	10/01/2016	115
10/11	BALTIMORE GAS & ELECTRIC	Baa2/BBB+	400	6.350	10/01/2036	145
10/13	REALOLOGY CORP	Baa2/BBB	250	FRN	10/20/2009	3ML+70
10/13	REALOLOGY CORP	Baa2/BBB	450	6.150	10/15/2011	140
10/13	REALOLOGY CORP	Baa2/BBB	500	6.500	10/15/2016	170

Shading indicates Utility & Pipeline issuance

Utility and Pipeline new issue supply (\$Bn)



Source: Securities Data Corp

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York Peter Madonia, MD (212) 834-3808
 Week ending Anisha Mehra, VP (212) 834-4918
 Oct 6, 2006 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

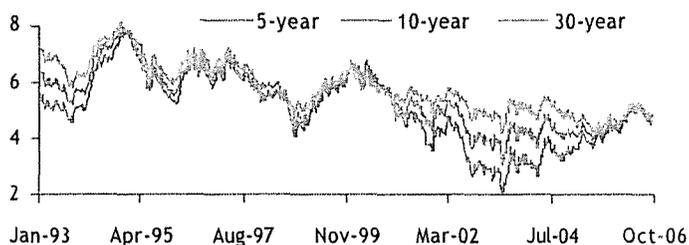
- September's non-farm payroll report showed just 51,000 jobs created last month versus a 120,000 expected growth rate. However, household survey unemployment reached a five-year low at 4.6% and August payroll figures were revised upward from 128,000 to 188,000. Furthermore, the report also brought news that the Labor Department may revise job growth over the 12-month period ending in March up by 810,000 jobs.
- On the heels of the payroll report, Treasury yields rose on Friday to a two-week high. 10- and 30-year yields rose 7bp and 8bp, respectively, last week, though rates still remain lower (approx. 5bp) and the curve flatter since the September 20th Fed meeting.
- While housing weakness remains a concern, construction employment actually rose 8,000 last month, while improved home sales and construction figures tempered the anticipated downturn in housing activity.
- Fed funds futures now reflect less than a one-third probability of a Fed cut in 1Q 2007. March implied Fed funds reached a near-term high of 5.18%, up from a low of 5.09% late last month.
- While JPMorgan recently pushed back its expectation of an FOMC hike into next year, we still expect a 6% Fed funds rate by mid-2007. Even with lower oil prices causing some fleeting economic comfort and slightly diminishing inflation concerns, the PCE index remains higher than the Fed would like, at 2.5% as of September.

JPMorgan interest rate forecast (%)

	6-Oct-06	4Q 06	1Q 07	2Q 07	3Q 07
Fed Funds rate	5.25%	5.25%	5.50%	6.00%	6.00%
3m LIBOR	5.37%	5.45%	5.70%	6.15%	6.15%
2yr UST	4.74%	4.95%	5.15%	5.65%	5.70%
5yr UST	4.64%	4.90%	5.10%	5.60%	5.65%
10yr UST	4.70%	5.00%	5.20%	5.65%	5.70%
30yr UST	4.84%	5.05%	5.25%	5.65%	5.70%
10s/30s curve	14 bps	5 bps	5 bps	Flat	Flat

JPMorgan forecast as of 10/6/06; forecasts are for quarter-end

Historical treasury rates (%)



Source: Bloomberg

High grade primary and secondary market update

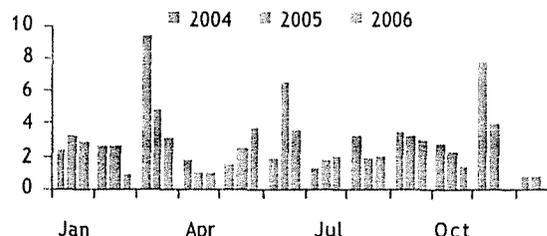
- With the bank holiday weekend and a quieter market tone, new issue supply remained modest at approximately \$8.7 billion last week.
- However, utility and pipeline sector issuance remained robust last week with 5 issuers entering the market with over \$1.5 billion of supply. JPMorgan led MidAmerican Energy's (A2/A-) \$350 million 30-year senior unsecured bond offering. The offering quickly reached oversubscription as more than 40 investors submitted orders led by insurance companies, state pension funds and asset managers. Despite several competing 30-year trades in the market, MEC priced the new issue inside of secondary trading levels at a spread of T+105bp while also capitalizing on the Treasury rally - the 30-year UST yield fell 17bps in the two weeks preceding the transaction. ITC Holdings (Baa3/BBB-), a transmission holding company, issued \$510MM split between 10- and 30-year tranches to fund the acquisition of Michigan Electric Transmission Company (METC). More than 40 investors received allocations as the 10- and 30-year tranches priced at +132bp and +167bp, the tight end of +135bp Area and +170bp Area price guidance. AEP Texas Central also sold \$1.74 billion of AAA rated senior secured transition bonds across 5 tranches led by JPMorgan.
- High grade corporate bond spreads finished 1bp wider last week as investors remain skittish with increased LBO rumors.

Selected high grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
10/2	INDIANAPOLIS POWER & LIGHT	Baa1/BBB-	158.8	6.050	10/01/2036	135
10/3	LOWE'S COMPANIES INC	A1/A+	550	5.400	10/15/2016	83
10/3	LOWE'S COMPANIES INC	A1/A+	450	5.800	10/15/2036	105
10/3	SOUTHWESTERN PUBLIC SERVICE	Baa1/BBB	200	5.600	10/01/2016	100
10/3	SOUTHWESTERN PUBLIC SERVICE	Baa1/BBB	250	6.000	10/01/2036	130
10/3	MIDAMERICAN ENERGY CO	A2/A-	350	5.800	10/15/2036	105
10/4	ITC HOLDINGS CORP	Baa3/BBB-	255	5.875	09/30/2016	132
10/4	ITC HOLDINGS CORP	Baa3/BBB-	255	6.375	09/30/2036	167
10/4	ABX FINANCING CO (BARRICK)	Baa1/A-	400	5.750	10/15/2016	120
10/4	ABX FINANCING CO (BARRICK)	Baa1/A-	600	6.350	10/15/2036	167
10/4	ORANGE & ROCKLAND UTILITIES	A2/A	75	5.450	10/01/2016	90

Shading indicates Utility & Pipeline Issuance

Utility and Pipeline new issue supply (\$Bn)



Source: Securities Data Corp

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York Peter Madonia, MD (212) 834-3808
 Week ending Anisha Mehra, VP (212) 834-4918
 Sept 22, 2006 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

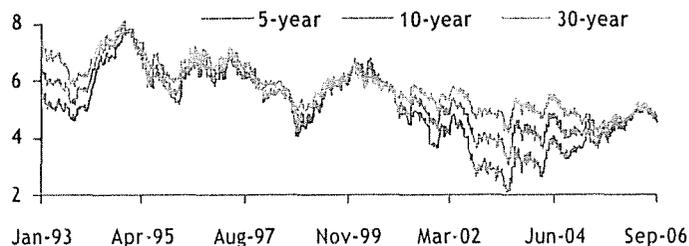
- The Federal Reserve kept its benchmark interest rate at 5.25% for a second consecutive meeting as moderating growth and a slide in oil prices suggest lower inflation lies ahead
 - In an accompanying statement mirroring that from the August 8th meeting, the FOMC suggested that while the moderation in economic growth "appears to be continuing", core inflation has been "elevated" but is expected to moderate over time, reflecting in part a "reduced impetus from energy prices"
- Weaker-than-expected reports on new home construction and manufacturing in the Philadelphia region earlier last were consistent with further evidence of moderating US growth
- JPMorgan lowered current quarter growth expectations to 2.0% (from 2.5%) and raised 4Q06 to 3.5% (from 3.0%)
 - As a consequence, JPMorgan is forecasting the Fed to remain on pause for the remainder of the year and resume a tightening policy in March 2007, with an expectation of a 6% Fed funds rate by mid-2007
 - The market is now pricing in 11% odds of a rate cut by December
- US Treasuries rallied to break out of their recent trading range, with 10-year notes posting their biggest weekly gain in 17 months
 - UST 10-year yields dropped 20bps last week to close at 4.60%, a six month low
 - The rally was triggered by speculation that slowing economic growth will prompt the Fed to cut interest rates
 - JPMorgan believes rallies are more likely to be vicious while sell-offs are more likely to be gradual going forward

JPMorgan interest rate forecast (%)

	22-Sep-06	4Q 06	1Q 07	2Q 07	3Q 07
Fed Funds rate	5.25%	5.25%	5.50%	6.00%	6.00%
3m LIBOR	5.37%	5.45%	5.70%	6.15%	6.15%
2yr UST	4.67%	4.95%	5.15%	5.65%	5.70%
5yr UST	4.54%	4.90%	5.10%	5.60%	5.65%
10yr UST	4.60%	5.00%	5.20%	5.65%	5.70%
30yr UST	4.74%	5.05%	5.25%	5.65%	5.70%
10s/30s curve	14 bps	5 bps	5 bps	Flat	0 bps

JPMorgan forecast as of 9/22/06; forecasts are for quarter-end

Historical treasury rates (%)



Source: Bloomberg

High grade primary and secondary market update

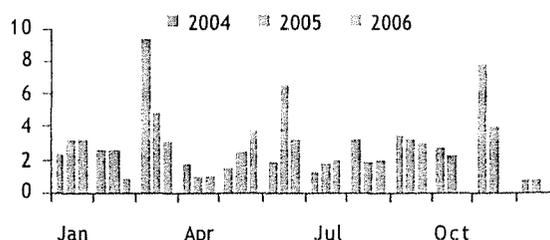
- The new issue market continues to remain active with approximately \$22 billion of supply priced last week
 - Utility and Pipeline supply totaled \$2.1 billion last week:
 - ONEOK Partners (Baa2/BBB) priced \$1.4 billion senior unsecured notes across 3 tranches: \$350MM 5.5yr at T+123bp, \$450MM 10yr at T+143bps, and \$600MM at +183bps
 - PECO Energy (A2/A-) priced \$300MM 30yr first mortgage bonds at T+103bps
 - ConEd of NY (A1/A) priced \$400MM 10yr senior unsecured notes at T+83bps
- Investor feedback continues to highlight two key themes: disciplined investment strategy in new issues and growing demand for hybrids
- Credit spreads are likely to continue to hold firm around current levels, absent any major surprises
 - If the Fed pause extends into a hiatus, credit investors may conclude that this is a good time to take a more constructive view of the risk-reward equation of the investment grade asset class
- Typically as the Treasury yield curve flattens, the credit curve tends to steepen
 - Over the past year this has not been the case, as the JULI 10-30 year credit curve has been steady at 40 bps, while the Treasury curve has flattened 18 bps

Selected high grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
9/18	PECO ENERGY CO	A2/A-	300	5.950	10/01/2036	103
9/18	AVALONBAY COMMUNITIES	Baa1/BBB+	250	5.500	01/15/2012	80
9/18	AVALONBAY COMMUNITIES	Baa1/BBB+	250	5.750	09/15/2016	100
9/20	WESTERN UNION CO	A3/A-	1000	5.930	10/01/2016	120
9/20	CONSOLIDATED EDISON	A1/A	400	5.500	09/15/2016	83
9/20	ONEOK PARTNERS LP	Baa2/BBB	350	5.900	04/01/2012	123
9/20	ONEOK PARTNERS LP	Baa2/BBB	450	6.150	10/01/2016	143
9/20	ONEOK PARTNERS LP	Baa2/BBB	600	6.650	10/01/2036	183
9/21	WESTFIELD GROUP	A2/A-	600	5.400	10/01/2012	85
9/21	WESTFIELD GROUP	A2/A-	900	5.700	10/01/2016	109

Shading indicates Utility & Pipeline issuance

Utility and Pipeline new issue supply (\$Bn)



Source: Securities Data Corp

U.S. debt capital markets update

Utility & Pipeline sectors

For distribution to issuer clients only

New York Peter Madonia, MD (212) 834-3808
 Week ending Anisha Mehra, VP (212) 834-4918
 Sept 15, 2006 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

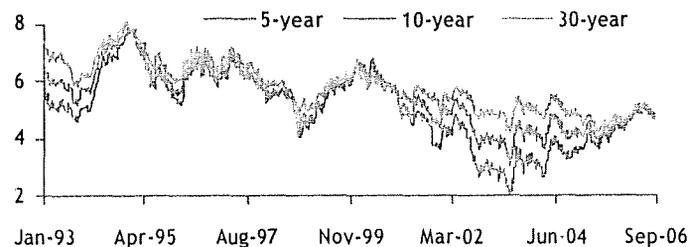
- JPMorgan forecasts that the Fed will almost certainly keep rates unchanged at Wednesday's FOMC meeting
 - Focus will be on how Fed thinking may have changed since the last meeting, given the sharp decline in energy prices, further weakening in the housing market and upward revisions to unit labor costs
 - Real GDP growth still looks to average 2.75% in 2H'06; although risks are tilting towards a choppy pattern than in the current forecast
 - A notably wider than expected trade deficit for July highlights the downside risk to the growth forecast for the current quarter
 - A sharp slide in energy prices since August, and the short-term boost to consumer spending, highlight upside risk to the forecast for the next quarter
 - Moreover, market developments have reduced downside risks to growth
 - Interest rates have declined sharply from their peaks
 - Recent oil price declines should also support consumer sentiment and spending
 - However, manufacturing output has seen a decisive slowdown since mid-year (1.9% versus average annual growth of 5.2%)
 - Interest rates futures are currently pricing in only a 23% chance of a 25bp rate hike before year-end
 - Treasury yields have remained range-bound as the medium-term outlook for the US economy remains under debate
- The 10yr Treasury yield was unchanged last week while the 30yr yield dropped 1bp

JPMorgan interest rate forecast (%)

	15-Sep-06	4Q 06	1Q 07	2Q 07	3Q 07
Fed Funds rate	5.25%	5.50%	6.00%	6.00%	6.00%
3m LIBOR	5.39%	5.70%	6.15%	6.15%	6.15%
2yr UST	4.86%	5.15%	5.70%	5.80%	5.80%
5yr UST	4.76%	5.10%	5.65%	5.80%	5.80%
10yr UST	4.80%	5.20%	5.70%	5.80%	5.80%
30yr UST	4.92%	5.25%	5.70%	5.75%	5.75%
10s/30s curve	12 bps	5 bps	Flat	-5 bps	-5 bps

JPMorgan forecast as of 9/15/06; forecasts are for quarter-end

Historical treasury rates (%)



Source: Bloomberg

High grade primary and secondary market update

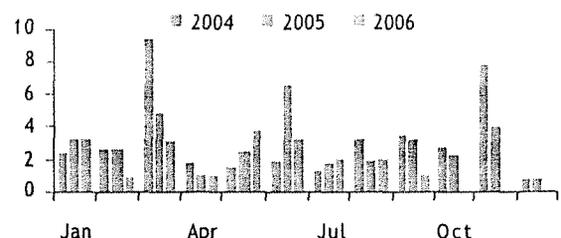
- Despite a variety of troubling corporate events last week, the credit market maintained a firm tone on certain positive earnings releases and lower energy prices
 - High grade corporate bond spreads finished 1bp tighter last week as spreads have returned to approximately the same level at which they opened at in the beginning of 2006
- Credit spreads are anticipated to remain range-bound in the near-term, reflecting a stalemate between bullish and bearish forces
 - Favorable corporate sector profitability & leverage as well as stable technical conditions remain in place
 - Event risk has remained a deterrent as companies seek to provide improved value to their shareholders versus bondholders
- The September new issue calendar has remained active with over \$18 billion in supply pricing last week
 - FPL Group Capital priced \$350mm of 60nc10 step-up "Basket C" hybrid securities, with JPMorgan as bookrunner
 - The offering priced at T+160, implying an approximate 65bps premium to senior debt - *the lowest premium ever for a hybrid security in the USD market* - is a reflection of the recent strength of demand in the hybrid market
 - The offering followed FPL's successful \$350mm retail-targeted, 60nc5, "Basket C" transaction that priced the previous day at 6.60%
 - Other utility issuance included: UGI Utilities (A3/A) \$175MM 10yr and \$100MM 30yr unsecured at +98bp and +130bp; Puget Sound Energy (Baa2/BBB) \$300MM 30yr fallaway FMBs at +140bp; Monongahela Power (Baa3/BBB-) \$150MM 10yr FMBs at +100bp

Selected high grade new issuance

Date	Issuer	Ratings	Size	Coupon	Maturity	Spread
9/12	HEALTH CARE PROPERTIES	Baa2/BBB+	300	FRN	09/15/2008	3ML+45
9/12	HEALTH CARE PROPERTIES	Baa2/BBB+	300	5.950	09/15/2011	125
9/12	HEALTH CARE PROPERTIES	Baa2/BBB+	400	6.300	09/15/2016	155
9/12	UGI UTILITIES INC	A3/A	175	5.753	09/30/2016	98
9/12	UGI UTILITIES INC	A3/A	100	6.206	09/30/2036	130
9/12	FPL GROUP CAPITAL INC	A3/BBB+	350	6.600	PREF	-
9/13	FPL GROUP CAPITAL INC	A3/BBB+	350	6.350	10/01/2066	160
9/13	PUGET SOUND ENERGY INC	Baa2/BBB	300	6.274	03/15/2037	140
9/13	MONONGAHELA POWER	Baa2/BBB-	150	5.700	03/15/2017	100
9/14	ANADARKO PETROLEUM CORP	Baa2/BBB-	2000	FRN	09/15/2009	3ML+40
9/14	ANADARKO PETROLEUM CORP	Baa2/BBB-	1750	5.950	09/15/2016	125
9/14	ANADARKO PETROLEUM CORP	Baa2/BBB-	1750	6.450	09/15/2036	160

Shading indicates Utility sector issuance

Utility and Pipeline new issue supply (\$Bn)



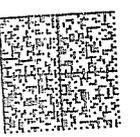
Source: Securities Data Corp

E.ON U.S. Services Inc.
State Regulation & Rates
220 West Main Street
5th Floor
Louisville, KY 40202

Elizabeth O'Donnell, Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

RECEIVED
NOV 07 2006
PUBLIC SERVICE
COMMISSION

FIRST CLASS



Hasler

018H28505227
\$04.050
11/06/2006
Issued From 40202
US POSTAGE