



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

RECEIVED
AUG - 6 2008
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

August 4, 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 July 25, 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:	July 25, 2018
Interest Rate:	6.16%
Price Paid:	100%
Proceeds:	\$50 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	January 25 and July 25 of each year commencing January 25, 2009

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

Ms. Stephanie L. Stumbo
 August 4, 2008

The interest rate was set using the lowest rate quoted to KU at 2.03% above the yield on the ten-year treasury bond (4.13%). 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 ten-year treasury	2.03%	
Ten-year treasury rate	4.13%	
All-in cost	6.16%	
Average bid above ten-year treasury		2.41%
Ten-year treasury rate		4.13%
All-in cost		6.54%

The 203 basis point spread for this ten year borrowing is comparable to that of recent ten-year issuances from other energy companies with similar credit ratings and favorable to that of a recent ten-year issuance from another energy company with lower ratings. (See table below along with attached support documentation).

Issuer	Moody's / S&P	Maturity	Spread
Northern Natural Gas Co.	A2 / A	7/15/2018	+ 193 bps
Idaho Power Co.	A3/ A	7/15/2018	+ 215 bps
Pacific Corp.	A3/A-	7/15/2018	+180 bps
Nevada Power Co.	Baa3/BBB	8/1/2018	+245 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

Summary Terms for Kentucky Utilities

Indicative Fixed Rate Pricing

Kentucky Utilities

Summary Terms for \$50 million US-Domestic First Mortgage Bond Offering
(Assumes Secured Debt Ratings of A1/A)

Fixed Rate New Issue Levels

Maturity:	10 Years
U.S. Treasury Rate:	4.105%
Issue Price:	Par
Optionality:	MW
Reoffer Spread:	195 bps
Reoffer Yield:	6.055% _a
Gross Spread:	0.650% _a
Amortization of Gross Spread:	0.08% _a
Semiannual All-in Cost:	6.135% _a
Semiannual All-in Spread:	203 bps

U.S. Treasury and LIBOR rates as of July 22, 2008

Summary Terms for Louisville Gas & Electric

Indicative Fixed Rate Pricing

Louisville Gas & Electric

Summary Terms \$25 million US-Domestic First Mortgage Bond Offering

(Assumes Secured Debt Ratings of A1/A-)

Fixed Rate New Issue Levels

Maturity:	10 Years
U.S. Treasury Rate:	4.105%
Issue Price:	Par
Optionality:	MW
Reoffer Spread:	200 bps
Reoffer Yield:	6.105%
Gross Spread:	0.650%
Amortization of Gross Spread:	0.08%
Semiannual All-in Cost:	6.185%
Semiannual All-in Spread:	208 bps

U.S. Treasury and LIBOR rates as of July 22, 2008



LG&E ENERGY

New Issue Pricing Indications

Indicative 10-Yr FMB Levels

Kentucky Utilities (FMB Rated A1/A)

	10 Year
Issue Size (MM)	\$50
Coupon Type	Fixed
Reset/Payment	NA/Semi
Call Provision	Make-Whole
Benchmark Treasury	3.875% due 5/18
Benchmark Treasury Yield	4.095%
Reoffer Spread	T + 215 bps Area
Reoffer Yield	6.245%
Underwriting Fees	0.650%
All-in Yield	6.334%
All-in Spread	T + 224 bps Area



Pricing indications as of July 22, 2008. Assumes a new issue settlement date of July 25, 2008, with interest accruing from July 25, 2008. All yields are quoted on a semiannual basis.



LG&ENERGY

New Issue Pricing Indications

Indicative 10-Yr FMB Levels

LG&E (FMB Rated A1/A-)

	10 Year
Issue Size (MM)	\$25
Coupon Type	Fixed
Reset/Payment	NA/Semi
Call Provision	Make-Whole
Benchmark Treasury	3.875% due 5/18
Benchmark Treasury Yield	4.095%
Reoffer Spread	T + 220 bps Area
Reoffer Yield	6.295%
Underwriting Fees	0.650%
All-in Yield	6.384%
All-in Spread	T + 229 bps Area



Pricing indications as of July 22, 2008. Assumes a new issue settlement date of July 25, 2008, with interest accruing from July 25, 2008. All yields are quoted on a semiannual basis.

US Private Placements

Indicative Pricing

- Bank of America believes a Kentucky Utilities Company ("KU") first mortgage bond (A1/A) could successfully price at spreads indicated in the table below

	10y bullet	12y bullet	20y bullet	30y bullet
DIRECT ISSUE FIXED-RATE PRICING				
Reference Treasury	3.88% due 5/18	3.88% due 5/18	4.38% due 2/38	4.38% due 2/38
Treasury yield	4.10%	4.10%	4.66%	4.66%
Credit spread (bps)	220	230	220	230
Fixed-rate coupon	6.30%	6.40%	6.86%	6.96%
SYNTHETIC FLOATING RATE PRICING				
Swapped vs. LIBOR	147	148	178	185
Swapped vs. EURIBOR	142	144	178	183
ALL-IN COSTS				
Up-front Placement Fee (bps) ⁽¹⁾	30	30	30	30
Amortized Fee and Expenses (bps)	4	4	3	2
All-in Equivalent Rate	6.34%	6.43%	6.89%	6.98%
All-in Spread to Treasury (bps)	224	234	223	232

Treasury yields are as of July 22, 2008

1. Based on \$500 million principal raised

US Private Placements

Indicative Pricing

- Bank of America believes a Louisville Gas and Electric Company ("LG&E") first mortgage bond (A1/A-) could successfully price at spreads indicated in the table below

	10y bullet	12y bullet	20y bullet	30y bullet
DIRECT ISSUE FIXED-RATE PRICING				
Reference Treasury	3.88% due 5/18	3.88% due 5/18	4.38% due 2/38	4.38% due 2/38
Treasury yield	4.10%	4.10%	4.66%	4.66%
Credit spread (bps)	220	230	220	230
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All-in Spread to Treasury (bps)	224	234	223	232

Treasury yields are as of July 22, 2008

1. Based on \$500 million principal raised

Arbough, Dan

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Wednesday, July 23, 2008 7:15 AM
To: Wiedmar, John
Cc: Arbough, Dan; Horne, Elliott
Subject: WG: E.ON AG 10y USD

Von: PETCU, Catalin, GBM [mailto:Catalin.PETCU@rbs.com]
Gesendet: Dienstag, 22. Juli 2008 17:17
An: Heintzen, Lioba
Cc: PLAN, Roland, GBM
Betreff: E.ON AG 10y USD

Dear Mrs. Heintzen,

as requested, please find below the spread indication for a new E.ON AG 10 years USD bond:

Ref Benchmark (US Treasury): 3.875% May 2018
Ref Benchmark Yield: 4.087%
All in USD Spread to US Treasury: T+236bp

In case you need other more detailed information please don't hesitate to contact us.

Best Regards,

Catalin Petcu

Catalin Petcu

Debt Capital Markets, European Corporates

RBS Global Banking & Markets

135 Bishopsgate, London, EC2M 3UR

Office: +44 20 7085 7865 Mobile: +44 79 12164 796 Fax: +44 20 7085 6344

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www.rbs.com

7/23/2008

Arbough, Dan

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Wednesday, July 23, 2008 7:14 AM
To: Wiedmar, John
Cc: Horne, Elliott; Arbough, Dan
Subject: WG: Spread Indication

Von: Triebel, Tobias [mailto:Tobias.Triebel@gs.com]
Gesendet: Dienstag, 22. Juli 2008 15:41
An: Heintzen, Lioba
Cc: Meckel, Jans
Betreff: FW: Spread Indication

Hello,

An indicative all in spread for a USD75m 10yr private placement would be UST + 255bps. The relevant reference treasury is the 3.875% 5/18 UST

Best regards
Toby Triebel

From: Heintzen, Lioba [mailto:Lioba.Heintzen@eon.com]
Sent: Tuesday, July 22, 2008 2:11 PM
To: Schrago, Godefroy
Cc: Meckel, Jans
Subject: Spread Indication

Hello,

could you kindly quote me the all in spread that E.ON were to pay for a USD 75m 10 year private placement at a fixed level please? As usual what I need is an email in English that states the spread over Treasuries and the relevant reference treasury. This is for internal purposes only.

Thanks for your help!

Mit freundlichen Grüßen / Kind regards
Lioba Heintzen

Treasury/Asset Management
T: +49 (0) 211 4579 655
F: +49 (0) 211 4579 669
lioba.heintzen@eon.com

E.ON AG
E.ON-Platz 1
40479 Düsseldorf

7/23/2008

Arbough, Dan

From: Heintzen, Lioba [Lioba.Heintzen@eon.com]
Sent: Wednesday, July 23, 2008 7:14 AM
To: Wiedmar, John
Cc: Arbough, Dan; Horne, Elliott
Subject: WG: Spread Indication [NC]

Attachments: pic08380.jpg



pic08380.jpg (50 KB)

-----Ursprüngliche Nachricht-----
Von: Martin WAGENKNECHT [mailto:martin.wagenknecht@sgcib.com]
Gesendet: Mittwoch, 23. Juli 2008 11:15
An: Heintzen, Lioba
Cc: Bodo BORGARDS
Betreff: Spread Indication [NC]

Dear Ms Heintzen,

Please find attached an indicative pricing for an E.ON 10-year private placement in USD. We believe that a new 10-year issue requires a premium of 220-230bp over the 10-year Benchmark, which is the T 3 7/8% 2018. This pricing assumes a good 20bp new issue premium over the recently issue E.ON benchmark 5.8% April 2018. Assuming fees of 0.5% we derive an all-in yield of 6.454%. Please see below for full details.

(Embedded image moved to file: pic08380.jpg)

Since we have a few points we briefly wanted to highlight, we will contact you shortly.

Best regards,

Martin Wagenknecht
Corporate and Public Sector Origination
Debt Capital Markets

Tel: +49-69-7174-641
Fax: +49-69-7174-117
E-Mail: martin.wagenknecht@sgcib.com

SOCIÉTÉ GÉNÉRALE
Neue Mainzer Strasse 46-50 - 60311 Frankfurt am Main
Postfach 10 19 35 - 60019 Frankfurt am Main
Tel.: 0 69 / 71 74- 0 - Fax: 0 69 / 71 74- 1 96
BLZ 512 108 00 - S.W.I.F.T. SOGE DE FF

Zweigniederlassung der Société Générale S.A. Paris
Eingetragen im R.C.S. Paris - 552 120 222
Registergericht Frankfurt am Main - HRB 37465
Verwaltungsrat:

Daniel Bouton (Vorsitzender) - Philippe Citerne

This message and any attachments (the "message") are confidential, intended solely for the

MATURITY	10-year
ISSUER RATING	A2 / A / A+
ISSUE SIZE	USD 750m
TYPE	Fixed
MATURITY	Mon-23-Jul-18
GOVERNMENT REFERENCE	T 3 7/8 05/15/18
REFERENCE YIELD	4.136%
RE-OFFER SPREAD VS REFERENCE	220 / 230 bp
RE-OFFER YIELD *	6.386%
COUPON (SA)	6.375%
RE-OFFER PRICE *	99.212%
FEE	0.500%
ALL-IN SPREAD (Vs REFERENCE) *	231.8 bp
ALL-IN YIELD *	6.454%

* assumes mid of the re-offer spread range

<HELP> for explanation, <MENU> for similar functions. Govt **ALLQ**
 US TREASURY N/B T 3 7/8 05/15/18 97-29+ / 97-30+ (4.13 / 13) BGN @13:39

Additional Providers		Options	T3 7/8 05/15/18	All Quotes	13:48:32	
Buy Inquiry		Sell Inquiry		AXES	BQ	
CBBT SPREAD VS T 3 7/8 05/15/18 Govt		97-28 / 97-28+	4.140 / 4.138	-0.0 / -0.0	bps	
Abbr	Firm Name	Bid Price / Ask Price	Bid Yield / Ask Yield	Bid Sz x Ask Sz (MM)	Time	
CBBT	BONDTRADER COMPOSITE	97-28 / 97-28+	4.140 / 4.138	x	13:48	
SCBX	STANDARD CHARTERED	97-28 / 97-28+	4.140 / 4.138	2 x 2	13:48	
DAB	DEUTSCHE BK-DAB	97-277 ⁸ / 97-28 ⁸	4.141 / 4.138	50 x 50	13:48	
MANB	MAN SECURITIES	97-28 / 97-28+	4.140 / 4.138	5 x 5	13:48	
WSAX	WALL STREET ACCESS	97-27 ⁸ / 97-28	4.143 / 4.138	5 x 5	13:48	
BART	BARCLAYS CAPITAL UST	97-27 ³ ₄ / 97-28+	4.134 / 4.132	60 x 50	13:48	
MER	Merrill Lynch AutoEx	97-28 / 97-28+	4.140 / 4.138	10 x 10	13:48	
ML	MERRILL LYNCH	97-28 / 97-28+	4.140 / 4.138	10 x 10	13:48	
ING	ING BANK	97-28 / 97-28+	4.140 / 4.138	0.25 x 0.25	13:48	
PERS	Pershing LLC	97-27 ¹ ₄ / 97-28+	4.143 / 4.138	5 x 5	13:48	
MZZH	Mizuho Securities	97-28 / 97-28	97.875 / 97.806	x	13:48	
BSC	BEAR STEARNS N Y	97-28 / 97-28+	4.140 / 4.138	5 x 5	13:48	
BBT	BLOOMBERG BONDTRADER	97-28 / 97-28 ⁸	4.140 / 4.138	5 x 8	13:48	
BDIR	Jefferies-BD	97-27 ³ ₄ / 97-28+	4.141 / 4.138	10 x 10	13:48	
BGN	BLOOMBERG GENERIC	97-27+ / 97-28+	4.142 / 4.138	x	13:47	
<input type="checkbox"/>	Firm Dealers ON	<input type="checkbox"/>	Enabled Dealers Only	<input type="checkbox"/>	Executable Dealers Only	Firm / Enabled / Executable / Not Monitored / Best bid/ask
	1st	2nd	3rd	4th	5th	Price Individually Yes

Australia 61 2 9777 8600 Brazil 55 11 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8500 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
 6669-111-0 23-Jul-2008 13:48:32

Capital Markets Update

CITI

Monday, July 7, 2008

Treasury Yield Curve

Maturity	7/07/08	Daily Change
2-year	2.46%	-7 bp
5-year	3.22%	-5 bp
10-year	3.93%	-4 bp
30-year (5/2037)	4.51% (4.51%)	-2 bp (-2 bp)
10-yr Swap (mid)	+79 bp	+3 bp
Euro (c/euro)	157.23	+0.20
Oil (Aug WTI)	141.37	-3.92
Gas (Aug Henry)	12.98	0.60
3 Month LIBOR	2.79000%	-0.001 bp
CDOX IG10 (5 Yr)	+147.7 bp	+0.2 bp

Equity Market Movers

	7/07/08	Daily Change	% Chg
DJIA	11,231.96	-56.58	-0.50%
S&P 500	1,252.31	-10.59	-0.84%
Nasdaq	2,243.32	-2.06	-0.09%
Nikkei	13,360.04	+122.15	+0.92%
UTY	533.79	-3.72	-0.69%
PNM	11.24	-0.38	-3.27%
CMS	13.85	-0.41	-2.88%
PEG	45.09	-1.09	-2.36%
PPI	50.73	-1.05	-2.03%

Economic Data at Bat

Release	Prev	Citi	Street
Wholesale Inventories	1.3%	--	0.7%
Pending Home Sales	6.3%	--	-2.9%
Consumer Credit	\$8.9B	--	\$7.0B

Power Industry Announcements

G-8 ON CLIMATE CHANGE. The Group of Eight officially endorsed a goal of halving greenhouse-gas emissions by 2050 and promised "ambitious" cuts over the next decade or two. But they also urged fast-growing emerging economies to pledge their own meaningful reductions. More discussions are scheduled for Wed.

PG&E'S BC LINE. SNL reports that Pacific Gas and Electric Co. is completing a report to California regulators telling them the utility wants to move forward with development of a 500-kV transmission line to British Columbia to tap into renewable energy resources from Canada by 2017. "Given the vast amount of potential renewable resources in BC, the strong feasibility of building a transmission line, good indicators of commercial viability, and the results of economic analyses, PG&E has decided to proceed to Phase 2 of this project, including pursuit of discussions with Powerex." PG&E said in the report on feasibility study's progress to the California PUC. A PPA with Powerex Corp. is targeted for 2010, PG&E said. Powerex is the power marketing subsidiary of BC Hydro. An overland line from British Columbia to California is technically feasible to engineer and construct, PG&E said. The line would be roughly 1,000 miles long and cost up to \$5.1 billion, PG&E has previously said.

PEG TRANSMISSION RATE. Public Service Electric and Gas Co. said it filed for an increase in transmission rates it maintains as it is needed to offset investment costs. PSE&G said it has requested a transmission ROE of 11.68% effective Oct. 1. The company's last rate increase was in 1997. If approved by the FERC, the new rates would increase the bill of the average residential electric customer by less than 0.5%, the company said. PSE&G said the new rates are also needed because of increasing transmission O&M expenses.

RENEWABLE TAX CREDIT UPDATE. SNL reports that Senate Republican Leader Mitch McConnell, R-Ky., wrote to House Speaker Nancy Pelosi, D-Calif., and Senate Majority Leader Harry Reid, D-Nev., last week proposing a compromise to allow for the extension of the renewable energy tax incentives. Republicans have argued that the tax credits do not need to be offset, but House Democrats have insisted they will not pass a tax incentive package that is not paid for fully in accordance with their "pay-go" pledge. McConnell noted that new tax relief is scored as increasing the deficit, even in instances where the resulting economic growth raises far more revenue than is estimated to be "lost." Senate Finance Committee Chairman Max Baucus, D-Mont., in June introduced a substitute amendment to H.R. 6049, the Renewable Energy and Jobs Creation Act of 2008, that proposes alternative energy solutions and tax relief for the nation's working

Treasury Market

Treasury prices rallied across the curve as investors abandoned risky assets. The yield curve steepened with 2s-to-10s spread the largest it has been in nearly a month. San Francisco Fed President Janet Yellen commented on Monday that while there is competing risks of growth and inflation, she is "somewhat reassured" by recent data that there are no signs of general wage pressure. She also said that data on the consumer, business spending and exports have eased her concerns "somewhat about the intensity of the slowdown." Fed Chairman Bernanke speaks this morning on financial regulation.

Equity Market

Equities closed lower on Monday after trading in a wide range: the Dow was up as much as 100 points in the morning and down as much as 150 points midday. Ultimately, the Dow finished down 0.5%, the S&P 500 down 0.8% and the Nasdaq lower by 0.1%. Utilities performed inline with the rest of the market as the UTY closed 0.7% lower. A drop in energy and other commodity prices fueled the positive open for equities, but further concerns in the financial sector weighed on sentiment throughout the day driving stock prices lower. Oil closed down nearly \$4 amid profit-taking, increased optimism regarding negotiations over Iran's nuclear program and the view that Hurricane Bertha will avoid the Gulf of Mexico. But Freddie Mac and Fannie Mae fell to their lowest levels in more than 14 years after analysts commented that if certain accounting standards are changed, it may require the agencies to add as much as \$46bn and \$29bn of capital, respectively. In deal news, Quicksilver Resources agreed to acquire the assets from various parties in Texas's Barnett Shale formation for \$1.31 billion in cash and stock. Overnight, stocks in Asia closed lower (Nikkei off 2.5%; Hong Kong off 3.2% and S Korea down 2.9%) while European stocks are also trading lower, led down by financials.

Economic Announcements

There were no significant economic announcements on Monday, but Tuesday brings 10:00 AM EDT releases of wholesale inventories and pending home sales.

families. The cost of the Baucus package is fully offset by delaying a planned tax benefit that would give multinational corporations additional tax deductions in the US and by requiring hedge fund managers to report and pay taxes on their compensation as they receive it, rather than storing it offshore to avoid taxes. As a compromise, McConnell proposed that the Senate Republican Conference "will agree to offset the revenue lost from new tax relief policy with spending reductions or revenue raised from appropriate tax policy proposals." H.R. 6049 extends the placed-in-service date for wind facilities for one year, through Dec. 31, 2009. It also extends the placed-in-service date for three years, through Dec. 31, 2011, for other eligible renewable technologies.

TE COMPLETES SCR. Tampa Electric announced that phase two of the installation of Selective Catalytic Reduction (SCR) equipment at the company's Big Bend Power Station is complete. Big Bend Power Station's unit three was the second to receive the new equipment, which is designed to further reduce NOx emissions at the plant. The \$330-million dollar emission control project is scheduled to be completed in two additional phases: unit two by May 1, 2009; and unit one by May 1, 2010. When completed in 2010, the project will reduce NOx emissions at Big Bend by approximately 90% from 1998 levels. The SCR project is part of a 10-year, \$1.2 billion Tampa Electric program which as the centerpiece of its agreement with the EPA and Florida's Department of Environmental Protection.

UI STATEMENT ON DPUC. The Connecticut Department of Utility Control (DPUC) issued a press release to deny a request by The United Illuminating Company, a subsidiary of UIL Holdings Corp., to appoint a prosecutorial staff to participate in settlement discovery. UI stated it has not to date filed a rate increase application with the DPUC. Instead, UI sought an alternative resolution that the Company believed would be in the interests of all customers. It did this to address changing economic conditions affecting UI's operations, in hopes of stabilizing customers' bills and averting a formal rate filing. With the DPUC's denial of a prosecutorial appointment, UI will now file a notice of its intent to request an increase in rates.

STANDARD OFFER IN MD. The Maryland PSC directed the state's investor-owned utilities to submit evaluations and recommendations of proposed standard offer service (SOS) procurement plans by Oct. 1. Specifically, the PSC directed the utilities to provide an evaluation of a long-term procurement plan for providing SOS to residential and small-commercial customers between 10 and 15 years in length.

Corporate Financing Activity

Idaho Power Company priced \$120mm of 10-year first mortgage bonds at a spread of +215 bp. The Company was last in the market on Oct. 15, 2007, when it priced \$100mm of 30-year first mortgage bonds at a spread of +135 bp.

Issuer	Ratings	Smm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
Idaho Power Company	A3/A	\$120	10 NC/L	6.025%	+215 bp	T+35	--	--	

Capital Markets Update



CITI

Thursday, July 10, 2008

Treasury Yield Curve

Maturity	7/10/08	Daily Change
2-year	2.41%	+1 bp
5-year	3.09%	-2 bp
10-year	3.81%	-2 bp
30-year (5/2037)	4.42% (4.42%)	-1 bp (-1 bp)
10-yr Sw ap (mid)	+72 bp	+0 bp
Euro (€euro)	157.78	+0.42
Oil (Aug WTI)	141.65	+5.10
Gas (Aug Henry)	12.30	+0.29
3-Month 1JBOF	2.79063%	+0.003 bp
CDX IG10 (5 Yr)	+143.1 bp	+0.1 bp

Treasury Market

Treasury prices closed near unchanged after stocks moved into positive territory and economic data was somewhat better than expected. Fed Chairman Ben Bernanke and Treasury Secretary Paulson testified at a House Financial Services Committee hearing on financial-market regulation. Bernanke said that "financial turmoil is ongoing," and government "efforts today are concentrated on helping the financial system return to more normal functioning." Bernanke called for "additional tools" to allow the Fed to maintain stability, including the regulation of investment banks. Secretary Paulson responded to questioning on the financial health of the mortgage agencies: "Their regulator has made clear that they are adequately capitalized."

Equity Market

Equities closed higher after another volatile day as M&A "animal spirits" outweighed a spike in the price of oil. The Dow and S&P 500 both gained 0.7%, while the Nasdaq rose 1.0%. Utilities slightly underperformed, closing up 0.5%. *Rohm & Haas* share price surged 64% after it was announced that *Dow Chemical* will purchase ROH for \$15.4 billion, a 74% premium to Wed's closing price. Treasury Secretary Paulson's comments on the Hill regarding the capital adequacy of Fannie Mae and Freddie Mac failed to curtail the fall in their share prices. The *NY Times* reports that the US government is considering a takeover of these agencies. *Lehman* also fell as much as 20% in intraday trading as rumors surfaced that *Pimco* had discontinued operations with *Lehman*. The stock slide ceased when *Pimco's* Bill Gross said they have not changed their dealings with *Lehman*. Oil rose more than \$5 after reports surfaced that Iran test-fired more missiles and a Nigerian militant group said it will end a cease-fire. Citi agreed to sell its German consumer business to France's *Credit Mutual Group* for \$7.7bn. *General Electric* has agreed to sell its Japanese consumer lending operations to Japan's *Shinsei Bank*. *GE* also plans to spin off its entire Consumer & Industrial division, not just appliances. Bellwether *GE's* Q2 earnings were announced at \$0.54, in line with consensus expectations.

Equity Market Movers

	7/10/08	Daily Change	% Chg
DJIA	11,229.02	+81.58	+0.73%
S&P 500	1,253.39	+8.70	+0.70%
Nasdaq	2,257.85	+22.96	+1.03%
Nikkei	13,067.21	+15.08	+0.12%
UTY	543.79	+2.43	+0.45%
PNM	11.28	-0.29	-2.51%
EXC	91.64	+1.78	+1.98%
FPL	68.07	+1.01	+1.51%
EAS	24.89	+0.33	+1.34%
OGI	32.14	+0.40	+1.26%
SRE	56.18	+0.61	+1.10%

Economic Data at Bat

Release	Prev	Citi	Street
International Trade Deficit	\$60.9B	\$65.0B	\$62.1B
Import Price Index	2.3%	2.4%	1.8%
U. Michigan Sentiment	56.4	56.0	55.8
Federal Budget Surplus	\$27.5B	\$45.0B	\$33.0B

Economic Announcements

Initial jobless claims declined 58K from last week to 346K, better than the 395K forecast.

Power Industry Announcements

WSJ ON CDM. See page one of *WSJ*: "A United Nations program designed to combat global warming has started doing something no one expected: It is subsidizing fossil-fuel power plants that spew millions of tons of greenhouse gases into the atmosphere annually."

ETR'S ENEXUS: CFO NAMED. Entergy Corp. continues to make progress preparing for its spin-off of the non-utility nuclear business, and Dean Keller was named EVP and chief financial officer for Enexus Energy Corporation. Keller joins Enexus with more than 10 years of expansive financial markets experience at Citigroup Global Markets Inc, most recently as managing director - investment banking and co-head of the North American Power Group, where he advised a wide range of energy-focused clients.

EIA: ELECTRICITY PRICES WILL RISE. Higher costs for natural gas to fuel power plants will be passed on to consumers, causing residential electricity prices to climb by 5.2% this year and 9.8% in 2009, the DOE's Energy Information Administration said in its new monthly energy forecast. Electricity prices increased just 2.2% in 2007. Utilities have continued to petition state regulators for permission to raise electricity rates in recent weeks in response to higher delivered fuel costs for power generation. "It is likely that most other utilities will soon need to pass through these increased costs to retail customers as well," the EIA said.

ENERGY TRADING TESTIMONY. *SNL* reports that, in a second day of testimony, House Agriculture Committee members heard a wide range of views on energy futures and derivatives markets. Some witnesses argued for more regulation to stop what could be excessive speculation in energy trading, while others argued fundamentals, not speculation, are driving energy prices.

FPL SOLAR PLAN. SunPower said it has been selected by Florida Power & Light Co. to build a 25-MW solar photovoltaic power plant in DeSoto County and a 10-MW project at the Kennedy Space Center. The company is to design and build the facilities. FP&L is to own, operate and maintain the plants, which require approval from the Florida PSC. The DeSoto plant is slated for completion in 2009 and the Kennedy Space Center plant is to be completed in 2010.

Corporate Financing Activity

The corporate bond market absorbed almost \$3bn of new issues. *Alcoa Inc* priced a total of \$1.5 billion of 5- and 10-year notes at +300 bp. In the energy sector, Northern Natural Gas, a unit of MidAmerican Energy Holdings, priced \$200 million of 10-year notes at +193 bp.

Issuer	Ratings	\$mm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
Northern Natural Gas Co	A2/A	\$200	10 NC/L	5.750%	+193 bp	T+30	-	-	
Alcoa Inc	Baa1/BBB+	\$750	5 NC/L	6.000%	+300 bp	T+45	101%	Jt. Books	
Alcoa Inc	Baa1/BBB+	\$750	10 NC/I	6.750%	+300 bp	T+45	101%	Jt. Books	
SABMiller plc	Baa1/BBB+	\$550	5.5 NC/L	5.700%	+265 bp	T+40	101%	-	144A
SABMiller plc	Baa1/BBB+	\$700	10 NC/I	6.500%	+270 bp	T+40	101%	-	144A

PA ENERGY BILL. Pennsylvania is launching a multiyear effort to reduce its dependence on foreign oil with energy legislation signed Wednesday by Gov. Ed Rendell. The new law - Alternative Energy Investment Act - provides \$650 million in state aid to finance alternative energy projects. The \$650 million fund has two components: a \$500 million bond issue over two years and \$150 million in cash spending over eight years. The bond issue includes \$100 million for solar rebates for consumers; \$80 million to help businesses that want to get into the solar energy market; \$25 million for small-scale renewables; and \$25 million for pollution control technology at power plants. Commenting on the end of price caps, Gov. Rendell, in a statement, said he will work this summer to reach an agreement with lawmakers on measures to improve "the state's flawed energy policies."

GE INVESTS IN WIND. GE's unit *GE Energy Financial Services* will invest a total of \$100 million in three of *Noble Environmental Power's* wind farms under construction in New York. *Noble Environmental* has about 3,850 MW of wind farms under development in eight states. The wind farms consist of 106.5 MW in Franklin County, 97.5 MW in Clinton County and 126 MW in Wyoming County.

MOODY'S ON NWE. NorthWestern Corporation d/b/a *NorthWestern Energy* announced that Moody's upgraded NorthWestern's senior secured rating to Baa2 from Baa3. The outlook was changed to *positive* from *stable*. Moody's cited a substantial improvement in the recent financial performance of the Company, as well as a paring of nonregulated operations.

FITCH ON PG&E. *Fitch Ratings* has upgraded the senior unsecured debt rating of Pacific Gas & Electric Company (PG&E) to 'A' from 'A-'. Commercial paper was also upgraded to 'F1' from 'F2'. The Rating Outlook is *Stable*. The ratings upgrade and *Stable* Rating Outlook consider PG&E's strong, relatively predictable earnings and cash flows. The ratings and *Stable* Rating Outlook also reflect Fitch's confidence in PG&E's ability to implement and recover its large, projected capital spending budget.

Capital Markets Update

CITI

Monday, July 14, 2008

Treasury Yield Curve

Maturity	7/14/08	Daily Change
2-year	2.46%	-15 bp
5-year	3.18%	-10 bp
10-year	3.88%	-6 bp
30-year (5/2037)	4.47% (4.47%)	-5 bp / -5 bp
10-yr Swap (mid)	+69 bp	+1 bp
Euro (c/euro)	159.11	-0.26
Oil (Aug WTI)	145.18	+0.10
Gas (Aug Henry)	11.96	+0.06
3-Month LIBOR	2.78938%	-0.001 bp
CDX IG10 (5 Yr)	+140.6 bp	+1.7 bp

Equity Market Movers

	7/14/08	Daily Change	% Chg
DJIA	11,055.19	-45.35	-0.41%
S&P 500	1,228.30	-11.19	-0.90%
Nasdaq	2,212.87	-26.21	-1.17%
Nikkei	13,010.16	-29.53	-0.23%
FTSE	531.83	-7.48	-1.39%
EXC	88.39	-2.16	-2.39%
HIX	50.51	-1.23	-2.38%
AYE	47.30	-1.06	-2.19%
WFC	44.92	-1.00	-2.18%

Economic Data at Bat

Release	Prev	Citi	Street
Producer Price Index	1.4%	1.0%	1.3%
Ex Food & Energy	0.2%	0.2%	0.3%
Retail Sales	1.0%	0.5%	0.3%
Ex Autos	1.2%	1.2%	1.0%
Empire State Mfg	-8.7	-	-7.3
Business Inventories	0.5%	0.5%	0.5%

Power Industry Announcements

GXP / ILA / BKH TRANSACTION CLOSES. Great Plains Energy Inc. said it had completed its \$1.7bn purchase of Aquila Inc. The transaction also involves Black Hills Corp., which said it bought Aquila's natural gas and electric utilities in Colorado, Iowa, Kansas and Nebraska for \$940 million. Great Plains operates Kansas City Power and Light Co. and will retain Aquila's electric utilities in Missouri and other corporate assets under KCP&L's brand. The move boosts KCP&L's customer total by 300,000 to 800,000. The company said it expects the combination to save \$198 million over five years and \$547 million over a decade. For Black Hills, which will rename the Aquila properties Black Hills Energy, the deal increases the company's customer base fivefold to 750,000.

TRANSMISSION IN CA. A proposed 1,250-MW wind project in Mexico has been incorporated into an environmental impact study and has become part of the debate over San Diego Gas & Electric Co.'s Sunrise Powerlink transmission project. The California PUC, in coordination with the U.S. Bureau of Land Management, released a report on the proposed 150-mile transmission project across southern California. Not satisfied with the most exhaustive study of a transmission line project in the state's history, the PUC and BLM have incorporated an analysis of the La Rumorosa Wind Project in Mexico and associated transmission and substation components in the US. On the one hand, opponents against the Sunrise project point to Sempra's proposed wind farm as evidence that there is no need for the transmission line to tap renewable energy resources in the Imperial Valley. Conversely, SDG&E argues that without Sunrise, most of its renewable energy could not get to California customers.

TRANSMISSION IN TX. Lawmakers and environmentalists urged Texas regulators to build transmission lines that will transport the maximum amount of wind power from rural West Texas that is feasible to help power the rest of the state. But others cautioned that a more measured approach should be adopted rather than placing

Corporate Financing Activity

PacifiCorp, a unit of Berkshire Hathaway's MidAmerican Energy Holdings, priced \$500mm of 10-year and \$300mm of 30-year first mortgage bonds at spreads of +180 bp and +192 bp, respectively. The offering was upsized from an originally-announced \$700mm. The utility was last in the market on Sept. 28, 2007, when it priced \$600mm 30-year FMBs at +140 bp. Entergy Arkansas Inc., a subsidiary of Entergy Corp., was also in the market and priced \$300mm of 5-year first mortgage bonds at +223 bp.

Issuer	Ratings	Smm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
PacifiCorp	A3/A-	\$500	10 NC/L	5.650%	+180 bp	T+30	--	Co-Mgr	First Mortgage Bonds
PacifiCorp	A3/A-	\$300	30 NC/L	6.350%	+192 bp	T+30	--	Co-Mgr	First Mortgage Bonds
Entergy Arkansas Inc	Baa1/A-	\$300	5 NC/L	5.400%	+223 bp	T+35	--	--	First Mortgage Bonds
Walgreen Company	A1/A+	\$1,300	5 NC/L	4.875%	+175 bp	T+30	101%	--	--

Treasury Market

Treasury prices benefited from another 'flight-to-quality' rally as markets refocused on systemic risks related to the US and global credit crisis. The FDIC seizure of IndyMac Bancorp renewed concerns about regional bank exposure to mortgage lending and weak housing markets. The Treasury curve steepened with the two-year yield closing 15 bp lower while the 10-year declined by 6 bp. Treasury Secretary Paulson asked Congress for authority to buy unlimited equity stakes in Fannie Mae and Freddie Mac "if needed," and to open emergency lending facilities in order to bolster confidence in the mortgage giants. Separately, the Fed announced that it has granted the Federal Reserve Bank of New York the authority to lend to Fannie Mae and Freddie Mac should such lending prove necessary. Freddie Mac's auction of short-term notes drew higher-than-average demand as the rescue plan boosted investor confidence. Chairman Bernanke will begin his semiannual testimony before the Senate Banking Committee joined by Treasury's Paulson and SEC's Cox. They will likely face questions on Fannie/Freddie proposals.

Equity Market

Equities closed lower as financials plummeted the most in eight years on increased concern that bank failures will spread. The Dow closed 0.4% lower, the S&P 500 0.9% lower and the Nasdaq closed down 1.2%. Utilities underperformed the broader market decreasing 1.4% on the day. Washington Mutual posted the largest decline ever and National City, Ohio's biggest bank, fell 65% after last week's collapse of IndyMac fueled speculation of other bank failures. IndyMac became the second largest federally insured bank to be seized by the FDIC. Freddie Mac and Fannie Mae shares were up pre-open after the Sunday announcements, but ultimately closed lower after investors speculated that the Paulson proposals could dilute shareholders. Oil drillers advanced on reports President Bush will lift the ban on oil exploration on the outer continental shelf. The lift of the ban, however, still requires Congressional approval. In deal news, InBev NV agreed to buy Anheuser-Busch for \$52bn, or \$70 per share. Waste Management also announced an offer to buy Republic Services for \$34 per share.

Economic Announcements

There were no significant economic releases on Monday. Tuesday brings the 8:30 AM release of the producer price index and retail sales report.

too much reliance on this intermittent energy source

PLANT SALE IN CO. Fort Chicago Energy Partners LP said that it has signed a deal to buy a 70-MW natural gas power plant in Colorado for US\$32 million. No further details were provided.

PLUG-IN HYBRIDS? Off-peak electricity production could fuel 70% of the 220 million vehicles on U.S. roads if they were plug-in hybrid electric, a study found. The study, performed by the U.S. Department of Energy's Pacific Northwest National Laboratory in Richland, Wash., indicates replacing gasoline engines with hybrids powered by off-peak electricity could improve air quality by using existing infrastructure more efficiently. Batteries for plug-in hybrid electric vehicles could store enough energy to meet the nation's 33-mile average commute. If drivers charged vehicles overnight when demand for electricity is low, most regions of the country would have plenty of off-peak capacity to handle that region's hybrid vehicles. While the fossil-fired power plants would emit additional greenhouse gases, overall levels would drop because electricity is more efficient to move a vehicle one mile than producing and burning gasoline.

UK PM ON NUCLEAR. Gordon Brown is to fast-track the building of at least eight nuclear power stations to cut Britain's dependence on oil following the dramatic rise in its price. The Prime Minister will set "no upper limit" on the number of nuclear plants that will be built by private companies. That would mean nuclear, which provides about 20 per cent of Britain's electricity, could meet a bigger share after the new generation of nuclear stations come on stream over the next 15 years. Mr Brown fears the UK could experience an energy supply crisis if it does not step up its nuclear program. He believes that fast-rising oil prices have tipped the balance even more in favor of nuclear and renewable energy, such as wind and wave power, since the Government published a White Paper in January, which backed nuclear.

Capital Markets Update



CITI

Friday, July 25, 2008

Treasury Yield Curve

Maturity	7/25/08	Daily/Awkly Change
2-year	2.72%	+9 bp / +9 bp
5-year	3.45%	+10 bp / +5 bp
10-year	4.11%	+9 bp / +3 bp
30-year (5/2037)	4.70% (4.70%)	-9 bp (+9 bp) / +4 bp
10-yr Swap (mid)	+70 bp	+2 bp / -6 bp
Euro (c/euro)	156.98	+0.14 bp / -1.43 bp
Oil (Aug WTI)	123.26	-2.23 / -5.62
Gas (Aug Henry)	9.08	-0.24 / -1.49
3-Month LIBOR	2.79625%	+0.003 / -0.003 bp
CDX IG10 (5 Yr)	+135.8 bp	+0.7 bp / -1.5 bp

Treasury Market

Treasury prices fell in response to better-than-expected durable goods, housing and confidence data (see below). The two- and 10-year yields both rose 9 bp on Friday. For the week, the 10-year Treasury yield rose 3 bp. On Saturday, July 26, the Senate approved (72-13) a bill to help stem foreclosures and aid *Fannie Mae* and *Freddie Mac* following the House's July 23 approval. The bill grants the *Federal Housing Administration* authority to insure up to \$300bn in refinanced mortgages. It also removes the \$2.25bn limit on the Treasury Department's line of credit to *Fannie/Freddie*. President Bush dropped earlier opposition and will sign the bill into law. This week's *Comments on Credit* identifies some moderation in the housing correction: "The culprit at the center of ongoing financial instability reared its head once more this week with news that home sales disappointed ... housing prices also have fallen substantially ... there are signs, however, that the intensity of the price adjustment is easing ... the pace of existing home sales has been relatively stable ... the pace of price decline appears to have diminished ... home consumers are reporting that they see prices as being 'attractive' at record rates ... We are still in the middle of the correction in the U.S. housing market, but the pain of adjustment is beginning to moderate." On balance, we expect Fed policy to remain on hold for the balance of 2008: "Fragile financial markets and lingering systemic threats ought to counterbalance heightened concern about upside inflation risks ... We expect that these tensions will leave policy at a standoff for the rest of the year [italics added]"

Equity Market Movers

	7/25/08	Daily Change	% Chg
DJIA	11,370.69	+21.41	+0.19%
S&P 500	1,257.76	+5.22	+0.42%
Nasdaq	2,310.53	+30.42	+1.33%
Nikkei	13,334.76	-268.55	-1.97%
UTY	503.54	-3.20	-0.63%
NST	31.71	-1.12	-3.41%
FE	72.22	-1.31	-1.78%
PNW	31.35	-0.56	-1.75%
PNM	10.99	-0.18	-1.61%

Equity Market

Equities managed to finish in positive territory after economic data reports and falling oil prices boosted investor sentiment. However, equities finished the week mixed as the Dow and S&P 500 closed lower, 1.1% and 0.2%, respectively; while the Nasdaq rose 1.2%. Oil prices closed \$2.23 lower on Friday and finished the week \$5.62 lower at \$123.26. A combination of profit-taking and concerns that economic weakness will slow energy demand drove the sell-off. Oil has fallen seven out of the last nine sessions since closing at a record high of \$145.18 on July 14. U.S. regulators closed two more banks as foreclosures rose dramatically: *First National Bank of Nevada* and *First Heritage Bank* (Newport Beach, Ca.). Together the banks held \$3.7bn of assets. Financial institutions have recognized \$468.2bn in write-downs and credit losses since the start of the crisis according to *Bloomberg*. *KKR* is revisiting its plans to go public in a transaction that could value it at as much as \$15 billion.

Economic Data at Bat

Release	Prev	Citi	Street
T / Consumer Confidence	50.4	52.5	50.0
Th / Initial Jobless Claims	+06K	+05K	+390K
Th / Real GDP (Q2)	1.0%	3.0%	2.0%
Th / Chain Price Index	2.7%	1.8%	2.7%
Th / Employment Cost (Q2)	0.7%	0.8%	0.7%
Th / Chicago PMI	-49.6	-49.0	-49.0
F / Nonfarm Payrolls	-62K	-75K	-75K
F / Unemployment Rate	5.5%	5.5%	5.6%
F / Average Hourly Earnings	0.3%	0.3%	0.3%
F / Average Workweek	33.7H	33.7H	33.7H
F / ISM Manufacturing	50.2	49.0	49.2
F / Prices Paid	91.5	78.0	88.0
F / Construction Spending	-0.4%	-0.2%	-0.3%
F / Total Vehicle Sales	13.6M	13.8M	13.7M
F / Domestic Vehicle Sales	9.7M	9.8M	9.9M

Economic Announcements

Durable goods orders rose a better-than-expected 0.8% in June following an upwardly revised 0.1% gain in May. Ex transportation orders grew 2%. New home sales were down 0.6% vs a deeper expected decline of 1.8%. The U. of Michigan consumer sentiment index rose to 61.2 in the final July tally, well above the consensus estimate of 56.3. Next week culminates in the critical July nonfarm payrolls report.

Power Industry Announcements

COST/BENEFIT: CLIMATE CHANGE. Bjorn Lomborg, director of the *Copenhagen Consensus*, discusses the value of clean energy R&D versus a pure mitigation approach. See *WSJ*, p. A15.

TRANSMISSION IN ME. *Maine Public Service (MPS)*, a subsidiary of *Maine & Maritimes Corporation*, and *Central Maine Power (CMP)* submitted a joint petition to the *FERC* on July 18, 2008, requesting transmission rate incentives in connection with the *Maine Power Connection Project*. The *MPC Project* - with an estimated cost of \$625 million - consists of a proposed 200-mile, 345 kV transmission line and the construction of new and upgraded substations. Pending Federal and State approvals, the companies expect project construction to begin in June 2009. In the filing, *MPS* and *CMP* requested formula rate-based incentives to recover revenue requirements for the *MPC Project*, including: (1) an additional ROE of 150 bp above each company's base ROE and (2) recovery of prudently incurred costs if the *MPC Project* is abandoned.

D COAL PLANT IN VA. Environmentalists are challenging the state's approval of a \$1.8bn coal-fired power plant in southwest Virginia. Four organizations filed papers appealing a state board's approval of two permits for the *Dominion Virginia Power* plant in *Wise County*. The *Southern Environmental Law Center* filed the notices of appeal in *Richmond Circuit Court*. Opponents of the plant also are appealing the *State Corporation Commission's* approval of the plant to the *Virginia Supreme Court*. They claim the law authorizing the project is unconstitutional because it requires the use of Virginia coal. Environmentalists have raised health and safety concerns.

Corporate Financing Activity

The IG 10 index of 5-year credit default swap (CDS) spreads showed an improvement of 1.5 bp on the week ending June 25. *Nevada Power Company*, a subsidiary of *Sierra Pacific Resources*, priced \$500mm of 10-year *General and Refunding Mortgage Notes* at a spread of +245 bp. The offering size was increased from an originally-announced \$400mm and priced at the tight end of price guidance of -245-250 bp. This is the utility's first investment-grade offering since 2002. *Nevada Power* was last in the market on June 25, 2007 when it priced \$350mm of 30-year *General and Refunding Mortgage Notes* (at rated Ba1/BB+ at that time) at a spread of +153 bp.

USU DOE LOAN GUARANTEE. *USEC* has submitted its application for a loan guarantee from the *DOE* to fund construction of the *American Centrifuge Plant* in *Piketon, Ohio*. The June 30 *DOE Loan Guarantee Solicitation* included \$2 billion for advanced "front-end" nuclear fuel cycle facilities. *USEC* received a license from the *NRC* to construct and operate the *Plant* in *April 2007* and commenced construction shortly thereafter. *USEC's* application is based on an estimated project budget of \$3.5bn.

SRP Q2 EPS. *Sierra Pacific Resources* said its Q2 profit rose 40% as rate increases and recovered construction costs offset lower operating revenue. *SRP* said income for the quarter ending June 30 increased to \$36.1 million, or 15 cents per share, up from \$25.7 million, or 12 cents per share, for the same quarter last year. Retail megawatt hour sales were down 6.1% at *Nevada Power* and 2% at *Sierra Pacific Power*. While the softening economy has slowed growth, *President and CEO Michael Yackira* said the company's long-term growth outlook remains strong. In southern Nevada, the average number of residential, commercial and industrial electric customers served by *Nevada Power* increased 1.1%, 3.1% and 3.4%, respectively, during the last six months, compared with the same period in 2007, the company said.

DYN Q1 RESTATED. *Dynegy* said it is restating its Q1 revenue by \$229 million. Citing a calculation error, *DYN* said the accounting change on power purchases has no effect on its previously-reported operating loss, net loss or loss per share for Q1. Nor does it impact the company's cash flows, liquidity or 2008 earnings estimates.

Issuer	Ratings	Smm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
Nevada Power Company	Baa3/BBB	\$500	10 NC/1	6.500%	+245 bp	1+40bp	101%	It Books	Senior secured

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 16, 2008

APPLICATION OF

KENTUCKY UTILITIES COMPANY
d/b/a OLD DOMINION POWER COMPANY

CASE NO. PUE-2007-00118

For authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia and to engage in an affiliate transaction under Chapter 4 of Title 56 of the Code of Virginia

2008 JAN 16 A 10:05

ORDER GRANTING AUTHORITY

On December 27, 2007, Kentucky Utilities Company, d/b/a/ Old Dominion Power Company ("Applicant" or the "Company"), filed an application with the State Corporation Commission ("Commission") requesting authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia ("Code") and to engage in an affiliate transaction under Chapter 4 of Title 56 of the Code. Applicant paid the requisite fee of \$250.

Applicant requests authority to issue up to \$275,000,000 of long-term debt ("Proposed Debt") during the 2008 calendar year to Fidelity Corporation ("Fidelity"). The proposed transaction constitutes an affiliate transaction under Chapter 4 of Title 56 of the Code since Fidelity is the finance company subsidiary of E.ON AG ("E.ON"), the parent holding company of Applicant. The rate of interest on the Proposed Debt will depend on market conditions at the time of issuance and the term of maturity. The interest rate may be fixed or variable; however the term of maturity will not exceed thirty years. Applicant further states that the interest rate on all borrowings will be at the lowest of: i) the effective cost of capital for E.ON; ii) the effective cost of capital for Fidelity Corporation ("Fidelity"); or iii) the Company's effective cost of capital as determined by reference to the Company's cost of a direct borrowing from an independent third party for a comparable term loan (the "Best Rate Method").

The Proposed Debt will be in the form of unsecured notes to Fidelia, subject to the terms of the loan agreement as set forth in Exhibit 1 attached to the Application. Applicant further requests authority to enter into one or more interest rate hedging agreements that may be in the form of a T-bill lock, swap, or similar agreement ("Hedging Facility") designed to lock in the underlying interest rate on Proposed Debt in advance of closing on the loan.

The Company states that proceeds from the Proposed Debt will be used during 2008 for routine and ongoing upgrades and expansions related to its distribution and transmission systems and other capital projects including, but not limited to, pollution control facilities.

THE COMMISSION, upon consideration of the application and having been advised by Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. Accordingly,

IT IS ORDERED THAT:

1) Applicant is hereby authorized to issue and deliver the Proposed Debt in the form of unsecured notes in an aggregate principal amount not to exceed \$275,000,000 in the manner and for the purposes as set forth in its application, through the period ending December 31, 2008.

2) Applicant is authorized to execute and deliver and perform the obligations of the Company under *inter alia*, the loan agreement with Fidelia, the Proposed Debt authorized in Ordering Paragraph (1), and such other agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

3) Applicant shall submit a Preliminary Report of Action within ten (10) days after the issuance of any securities pursuant to Ordering Paragraph (1), to include the type of security, the issuance date, amount of the issue, the interest rate, the maturity date, and a brief explanation of reasons for the term of maturity chosen.

4) Within sixty (60) days after the end of each calendar quarter in which any of the Proposed Debt is issued pursuant to Ordering Paragraph (1), Applicant shall file with the Commission a detailed Report of Action with respect to all Proposed Debt issued during the calendar quarter to include:

- (a) The issuance date, type of security, amount issued, interest rate, date of maturity, issuance expenses realized to date, net proceeds to Applicant, and an updated cost/benefit analysis that reflects the impact of any Hedging Facility for any Proposed Debt issued to refund other outstanding debt prior to maturity, if an update is applicable;
- (b) A summary of the specific terms and conditions of each Hedging Facility and an explanation of how it functions to lock in the interest rate on an associated issuance of Proposed Debt; and
- (c) The cumulative principal amount of Proposed Debt issued under the authority granted herein and the amount remaining to be issued.

5) Applicant shall file a final Report of Action on or before March 31, 2009, to include all information required in Ordering Paragraph (3) along with a balance sheet that reflects the capital structure following the issuance of the Proposed Debt. Applicant's final Report of Action shall further provide a detailed account of all the actual expenses and fees paid to date for the Proposed Debt with an explanation of any variances from the estimated expenses contained in the Financing Summary attached to the application.

6) Approval of the application shall have no implications for ratemaking purposes.

7) This matter shall be continued, subject to the continuing review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Kendrick R. Riggs, Esquire, Stolle Kenon Ogden, PLLC, 1700 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202; Daniel K. Arbough, Director, Corporate Finance and Treasurer, Kentucky Utilities Company, 220 West Main Street, Louisville, Kentucky 40202; and to the Commission's Division of Economics and Finance.