KU®
an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED
AUG 07 2009
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 5, 2009

RE: The application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations *(Case No. 2008-00426*)

Dear Mr. DeRouen:

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 27, 2009, KU borrowed $50 million from Fidelia Corporation in accordance with the order issued November 5, 2008 in the above-referenced case. The details of the loan are shown below:

Borrower:	Kentucky Utilities Company
Lender:	Fidelia Corporation
Amount:	$50 million
Maturity Date:	July 29, 2019
Interest Rate:	4.81%
Price Paid:	100%
Proceeds:	$50 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	January 27 and July 27 of each year commencing January 27, 2010

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

The interest rate was set using the lowest rate quoted to KU at 1.28% above the yield on the ten-year treasury bond (3.53%). The supporting price indications from the investment banks are attached along with a copy of pages from Bloomberg showing the yield on a ten year 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	1.28%	
Ten-year treasury rate	3.53%	
All-in cost	4.81%	
Average bid above ten-year treasury		1.60%
Ten-year treasury rate		3.53%
All-in cost		5.13%

The 128 basis point spread for this ten year borrowing is comparable to that of a recent ten year issuance from another energy company with a slightly lower credit rating, and lower than that of recent ten year issuances from two other energy companies with slightly lower credit ratings. (See table below along with attached support documentation).

Issuer	Moody's / S&P	Maturity	Spread
Niagara Mohawk Power	A3 / A-	8/15/2019	+ 125 bps
Wisconsin Power & Light	A2/ A-	7/15/2019	+ 160 bps
Virginia Electric Power	Baa1/A-	6/30/2019	+137.5 bps

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

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

Indicative New Issue Pricing – Kentucky Utilities

Comparable Secondary Trading Levels

Issuer	Ratings Moody's	Ratings S&P	Amt ($mm)	Coupon	Maturity	07/22/09 T+	07/22/09 L+
Florida Power & Light*	Aa3	A	300	5.550%	11/17	+100	+99
Florida Power & Light*	Aa3	A	600	5.950%	02/38	+105	+131
Duke Energy Carolinas*	A2	A ↑	500	7.000%	11/18	+110	+97
Duke Energy Carolinas*	A2	A ↑	600	6.050%	04/38	+110	+136
Public Service Colorado*	A3	A ↑	400	5.125%	06/19	+105	+86
Public Service Colorado*	A3	A ↑	300	6.500%	08/38	+110	+136
Southern Cal Edison*	A2	A	400	5.500%	08/18	+105	+94
Southern Cal Edison*	A2	A	500	6.050%	03/39	+110	+135
Progress Energy Florida*	A2	A-	500	5.650%	06/18	+105	+96
Progress Energy Florida*	A2	A-	1000	6.400%	06/38	+110	+136
PECO Energy*	A2 ⇓	A-	500	5.350%	03/18	+155	+150
PECO Energy*	A2 ⇓	A-	300	5.950%	10/36	+160	+187
PacifiCorp*	A3	A-	350	5.500%	01/19	+110	+95
PacifiCorp*	A3	A-	650	6.500%	01/39	+120	+146

↓ negative outlook ⇓ negative watch ↔ outlook forming ↑ positive outlook ⇑ positive watch *secured

Kentucky Utilities Indicative New Issue Pricing - $50 Million First Mortgage Bonds (A1/A)

Fixed Rate Issuance	10 Years
Benchmark	3.125% 5/19
Benchmark Yield	3.540%
Reoffer Spread	+120 area
Reoffer Yield	4.74% area
Underwriting Commission	0.650%
All-in Yield	4.82% area
Swapped to Libor Levels	
Swap Spread	+19
Reoffer versus LIBOR	$L+101 area
All-in versus LIBOR	$L+109 area

Benchmark and reoffer spreads as of 7/22/2009.

an e·on company

New Issue Pricing Indications

Kentucky Utilities – Public Market Pricing

First Mortgage Bonds (A1 / A)

	10 Year
Issue Size (MM)	$50
Coupon Type	Fixed
Reset/Payment	NA/Semi
Call Provision	Make-Whole
Benchmark Treasury	3.125% due 5/19
Benchmark Treasury Yield	3.486%
Reoffer Spread	**T + 150 bps Area**
Reoffer Yield	**4.986%**
Underwriting Fees	0.650%
All-in Yield	**5.071%**
All-in Spread	**T + 158 bps Area**

Pricing as of July 22, 2009.

Bank of America Merrill Lynch

Indicative First Mortgage Bond Pricing for Kentucky Utilities

Ratings (Moody's/S&P): A1/A
As of July 22, 2009

	10 NC/L
Benchmark Yield	3.55%
Reoffer Spread	**T+137.5-150 bp**
Reoffer Yield	4.92-5.05%
Offering Price	100.000%
Underwriting Commission	0.650%
Proceeds to the Company	99.350%
All-In Cost of Funds	5.01-5.13%
All-In Spread	**T+146-158 bp**
Swap Spread (Mid)	20 bp
Reoffer Spread to LIBOR	**L + 118-130 bp**

citi

Debt Capital Markets (+44 207)
Mike Koerkemeier 777-1373
Geert Arlman 777-1227
Sophie Bremer 325-4903

J.P.Morgan

E.ON—market update and indicative pricing July 22nd, 2009

Comments

- European markets opened the week on a strong note with equities up by 1-1.5% and high grade credit indices back at pre-Lehman levels
- This week the focus will be on the two-day congressional testimony by the Fed Chairman Ben Bernanke. The testimony started yesterday in which Bernanke discussed exit strategies
  - Earlier this week, the Fed Chief said that there may be a need to raise the rates soon to prevent inflation, though he did not give any time frame
- The Bank of England's Charlie Bean also discussed exit strategies. Bean noted that the BoE can withdraw stimulus in two ways—by raising the bank rate or by selling back some or all of the assets that the bank has bought as a part of the stimulus package
- Primary market have been relatively quiet due to the earnings season and investor holidays. This week the Eurobond primary market has been tapped by just one issuer so far
  - **GE (Aa2/AA+)** came to the market with a 5-year €2bn benchmark. The issuer priced 10bps through the revised guidance at MS+190bps on the back of a €6bn orderbook
- Looking forward, **Gazprom (Baa1/BBB, JPM books)** is in the market with a dual-currency issuance. The issuer is in the market with a 5-year US$ trade accompanied by a 5.5-year Euro trade. Initial guidance for the US$ trade was at 8.5%a and for the €500mm trade at 8.75%a. Guidance on both tranches has been tightened by 25bps on the back of strong demand
- Though primary volumes continue to reflect the summer slowdown, liquidity will remain strong enough to support new transactions over the next week, before the majority of investors begin to lose capacity in early August

Indicative pricing across markets

Indicative pricing for a EUR benchmark	2-year	3-year	5-year	7-year	10-year	12-year	13-year	15-year	20-year	30-year
Swap rate (p.a.; %)	1.73	2.19	2.83	3.24	3.62	3.81	3.88	4.01	4.14	4.05
Re-offer to midswaps (bps)	**45A**	**60A**	**85A**	**95A**	**105A**	**115A**	**125A**	**140A**	**160A**	**180A**
Re-offer yield (p.a.; %)	2.18	2.79	3.68	4.19	4.67	4.96	5.13	5.41	5.74	5.85
Coupon (p.a.; %)	2.125	2.750	3.625	4.125	4.625	4.875	5.125	5.375	5.625	5.750
Re-offer vs Euro mid swaps (bps)[1,2,3]	**45A**	**60A**	**85A**	**95A**	**105A**	**115A**	**125A**	**140A**	**160A**	**180A**

Indicative pricing for a GBP benchmark	5-year	7-year	8-year	10-year	12-year	15-year	20-year	30-year
Benchmark	Sep-14	Sep-16	Sep-16	Mar-19	Mar-20	Mar-25	Dec-28	Dec-38
Benchmark yield (s.a.; %)	2.94	3.36	3.36	3.82	3.89	4.37	4.42	4.52
Spread over benchmark (bps)	**165A**	**170A**	**170A**	**165A**	**160A**	**160A**	**155A**	**150A**
Re-offer yield (s.a.; %)	4.59	5.08	5.06	5.47	5.49	5.97	5.97	6.02
Re-offer yield (p.a.; %)	4.63	5.13	5.13	5.53	5.55	6.04	6.04	6.09
Coupon (p.a.; %)	4.625	5.125	5.125	5.500	5.500	6.000	6.000	6.000
Re-offer vs Euro mid swaps (bps)[1,2,3]	**102A**	**118A**	**109A**	**134A**	**126A**	**160A**	**163A**	**182A**

Indicative pricing for a US$ benchmark	5-year	10-year	30-year
Benchmark	Jun-14	May-19	Feb-39
Benchmark yield (s.a.; %)	2.35	3.50	4.40
Spread over benchmark (bps)	**125-137.5**	**150A**	**175A**
Re-offer yield (s.a.; %)	3.61	5.00	6.15
Coupon (s.a.; %)	3.500	5.000	6.125
Re-offer vs Euro mid swaps (bps)[1,2,3]	**40-52.5**	**102A**	**192A**

Source: J.P. Morgan. July 22nd, 2009

[1] A denotes area. Priced at the tight end

[2] two week forward start for EUR and GBP, 3 days for USD

[3] Excludes swap and credit charges

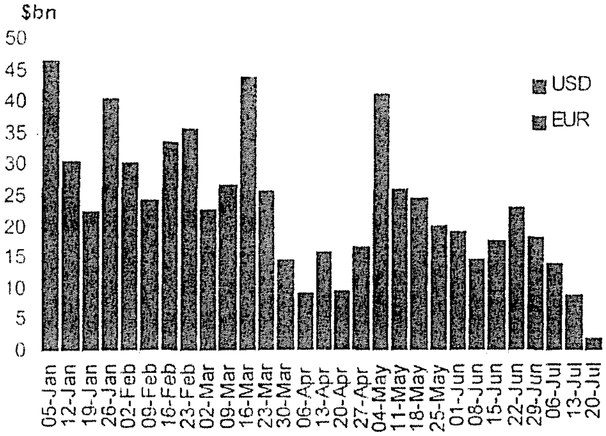
Bank of America Merrill Lynch Pricing and Market Update for E.ON (A2/A)

Bank of America Merrill Lynch

22 July 2009

Market Update

Weekly Corporate Euro & USD Issuance YTD

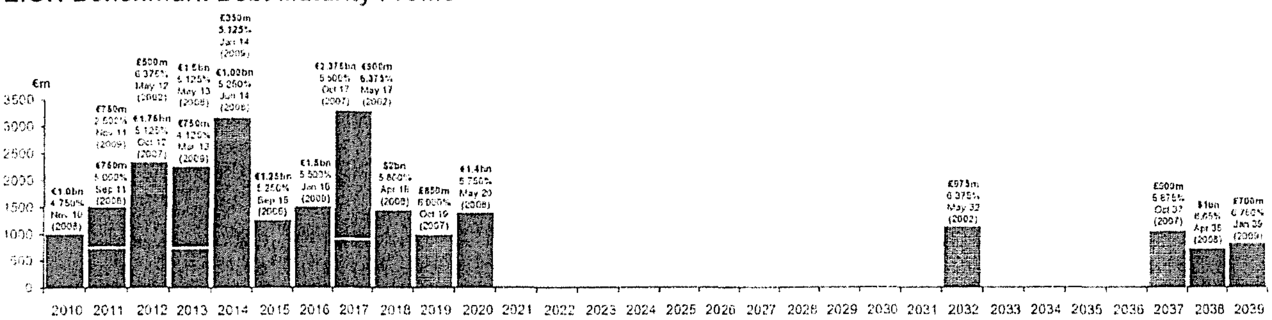


Comparable Trading Levels

Date	Issuer	Rating	Size	Coupon	Maturity	G Spread	Z Spread
Aug-08	E.ON	A2 / A	€750	5.000%	Sep-2011	65	23
Sep-07	E.ON	A2 / A	€1,750	5.125%	Oct-2012	110	48
Apr-08	E.ON	A2 / A	€1,500	5.125%	May-2013	100	67
Aug-08	E.ON	A2 / A	€1,000	5.250%	Jun-2014	110	83
Aug-08	E.ON	A2 / A	€1,250	5.250%	Sep-2015	120	91
Jan-09	E.ON	A2 / A	€1,500	5.500%	Jan-2016	124	101
Sep-07	E.ON	A2 / A	€2,375	5.500%	Oct-2017	112	91
Apr-08	E.ON	A2 / A	€1,400	5.750%	May-2020	148	106
Apr-08	E.ON	A2 / A	$2,000	5.800%	Apr-2016	140	-
Apr-08	E.ON	A2 / A	$1,000	6.650%	Apr-2038	140	-
European Utility Comparables							
May-08	EDF	Aa3 / A+	€600	5.000%	May-2014	110	72
May-08	EDF	Aa3 / A+	€1,200	5.375%	May-2020	145	101
Jul-09	EnBW	A2 / A-	€750	4.125%	Jul-2015	112	85
Jul-09	EnBW	A2 / A-	€600	6.125%	Jul-2039	172	188
Feb-09	RWE	A1 / A	€2,000	5.000%	Feb-2015	110	81
5 YR CDS Levels							
-	E.ON	A2 / A	-	-	5 Yr CDS	68	-
-	RWE	A1 / A	-	-	5 Yr CDS	45	-
-	EDF	Aa3 / A+	-	-	5 Yr CDS	61	-

Issuance Considerations

E.ON Benchmark Debt Maturity Profile



Utility Reporting Calendar

July

S	M	T	W	T	F	S
	1	2	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	EDF EnBW	31	

August

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	e.on	e.on	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

September

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

Indicates German Holiday

Indicates UK Holiday

Indicates US Holiday

- **E.ON:** Q2 ER 12 August
- **RWE:** Q2 ER 13 August
- **EDF:** H2 ER 30 July
- **EnBW:** Q2 ER 30 July

Pricing Across Markets

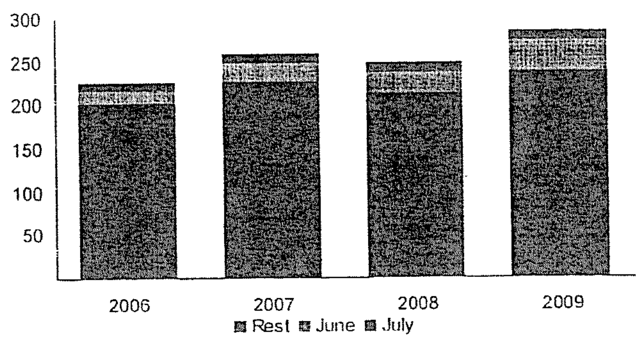
	EUR Senior	USD Senior	GBP Senior
Structure	Fixed	Fixed	Fixed
Re-Offer Spread in bps | (yield in %)	2y: m/s +45 | (2.16%)		
	3y: m/s +65 | (2.83%)	3y: T+150 | $m/s+100 | €m/s+58 | (2.91%)	
	4y: m/s +80 | (3.31%)		
	5y: m/s +95 | (3.78%)	5y: T+150 | $m/s+106 | €m/s+71 | (3.81%)	5y: G+165 | £m/s+101 | €m/s+105 | (4.64%)
	7y: m/s +110 | (4.34%)		7y: G+170 | £m/s+114 | €m/s+121 | (5.14%)
	10y: m/s +125 | (4.87%)	10y: T+160 | $m/s+144 | €m/s+121 | (5.08%)	10y: G+180 | £m/s+141 | €m/s+153 | (5.70%)
	12y: m/s +140 | (5.20%)		12y: G+165 | £m/s+140 | €m/s+151 | (5.82%)
	15y: m/s +155 | (5.57%)		15y: G+175 | £m/s+165 | €m/s+176 | (6.21%)
	20y: m/s +165 | (5.80%)		20y: G+170 | £m/s+168 | €m/s+180 | (6.21%)
	30y: m/s +180 | (5.85%)	30y: T+170 | $m/s+197 | €m/s+193 | (6.07%)	30y: G+165 | £m/s+189 | €m/s+200 | (6.27%)
Commentary	E.ON's bonds continue to perform in the secondary market tightening 3-10bps across the curve. E.ON's short dated bonds have become very expensive for investors with the 2011s bid around Z+23bps. However, there is very little two way flow in the market and cash rich investors are forced to accept any bids to put their money to work. Compared to last week, our pricing is 5-10bps tighter in the short and medium term maturities and 5bps wider in the long dated tenors	As in the European markets, activity in the US corporate market has been limited as we are in the midst of the earnings season. E.ON's 2016s and 2038s trade very tight (another 25-35bps tighter than last week). As a consequence our dollar pricing is not only 20bps tighter than last week but also increasingly attractive compared to Euro pricing	Despite the lack of supply in recent weeks, technicals remain positive in the secondary market as investors continue to favor corporate credit and ensure a tightening in the secondary market, particularly in the short end. As such, we have tightened our pricing by 10 and 15bps in 5 and 7years. Pricing in 12 and 20years increased slightly

Indicative New Issue Pricing
USD
as of July 22, 2009

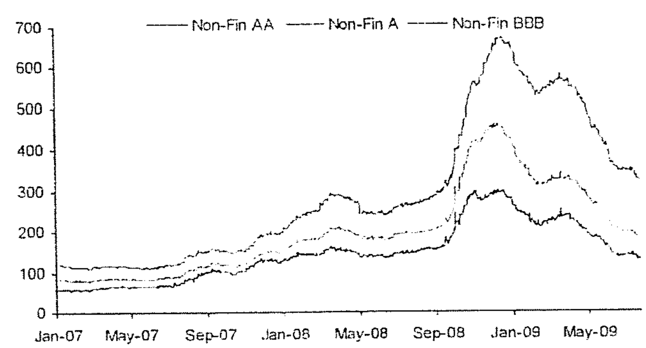
E.ON AG, A2 (stable) / A (stable)
- senior unsecured / benchmark size -

Maturity	3 years	5 years	7 years	10 years	30 years
Benchmark	1.500% 07.12	2.625% 06.14	3.250% 06.16	3.125% 05.19	4.250% 05.39
Mid Benchmark Treasury Yield	1.46%	2.37%	3.06%	3.50%	4.42%
Reoffer Spread	**+140**	**+155**	**+165**	**+170**	**+185**
Reoffer Yield	2.86%	3.92%	4.71%	5.20%	6.27%
Swap Spreads	51	46	26	21	-24
Indicative US$ LIBOR Spread	+89	+109	+139	+150	+209
Indicative Reoffer Spread Vs Euribor	+65	+85	+117	+134	+211

USD New Issuance Volumes (EUR bn)



USD iBoxx Spreads



GRAB   CurncyPX1

< PAGE FWD> f.umsatzschwache Bills, Notes, und Bonds.

13:30 **AKTUELL./b.ERSCHEINEN**

Bloomberg GENERIC

TREASURY BILLS

1) 1Mo	8/20/09	↓	.15/14	.15	--
2) 3Mo	10/22/09	↓	.18/17	.18	-.01
3) 6Mo	1/21/10	↓	.27/26	.26	-.01
4) 1Yr	7/01/10	↑	.43/42	.43	--

NOTES/ANLEIHEN

5)	$\frac{7}{8}$	5/11	↑	99-29+/31+	.88	--
6)	$1\frac{1}{8}$	6/11 2yr	↑	100-11 /11+	.94	--
7)	$1\frac{7}{8}$	6/12	↓	101-06 /08	1.43	--
8)	$1\frac{1}{2}$	7/12 3yr	↑	100-02 /02+	1.47	+ 01
9)	$2\frac{1}{4}$	5/14	↓	99-13+/15+	2.36	+ 00+
10)	$2\frac{5}{8}$	6/14 5yr	↓	101-02 /02+	2.39	+ 00+
11)	$3\frac{1}{4}$	6/16 7yr	↓	100-31+/00	3.09	+ 02
12)	$2\frac{3}{4}$	2/19	↑	93-20+/22+	3.53	+ 03+
13)	$3\frac{1}{8}$	5/19 10yr	↓	96-20 /21	3.53	+ 03+
14)	$3\frac{1}{2}$	2/39	↓	84-19 /21	4.44	+ 05
15)	$4\frac{1}{4}$	5/39 30yr	↑	96-31 /00	4.43	+ 07+
16)	TII	5 YR	↑	100-31 /01	1.03	--
17)	TII	10 YR	↓	101-13 /15	1.71	+ 03+
18)	TII	20 YR	↑	103-01+/03+	2.30	--

SONSTIGE MÄRKTE

19) US Long(CBT)	13:20	↓	117-16	+ 07
20) 10Y Fut(CBT)	13:20	↓	117-10+	+ 03
21) EURO$ (IMM)	13:20	↑	99.465	-.005
22) S&P 500 Ind	yd		954.07	--
23) NASDAQ Comp	yd		1926.38	--
24) DowJones Ind	yd		8881.26	--
25) Gold (CMX)	13:30	↓	952.72	+1.33
26) NYM WTI Crd	13:00	↓	64.92	-.48

U.S. Debt Capital Markets update
Utility & Pipeline sectors
For distribution to issuer clients only

New York
Week ending
July 10, 2009

Peter Madonia, MD (212) 834-3808
Anisha Mehra, ED (212) 834-4918
Steve Learner, Assoc (212) 834-4084
Stephanie Wai, Analyst (212) 834-3117

Economic and Treasury market update

- Economic data indicates that the economy has shifted from a deep downturn in 4Q08 and 1Q09 to stabilization by the middle of this year, and growth by year end
- J.P. Morgan revised its estimate of 2Q09 real GDP to -0.5% saar (from -2.0%) on the back of improvement in net exports and manufacturing
  - Global manufacturing is set to revive in Q3, as inventory reductions fade
  - The US foreign trade balance narrowed sharply in May owing both the stronger exports (increased 1.6%) and weaker imports (declined 0.6%)
- Initial jobless claims have been trending lower since March, one of the strongest signs that an end to the recession is near
  - Last week, seasonally adjusted jobless claims fell 52,000 to 565,000, the lowest weekly reading since early January
  - Continuing claims rose last week, but recent trends show a shift toward slower increases in unemployment
  - However, unemployment is still expected to reach 10%
- Treasury yields are lower, and the curve has flattened, despite last week's heavy duration supply
  - Over the past two weeks, 5, 10, and 30-yr yields are lower by 32bps, 20bps, and 11bps, respectively

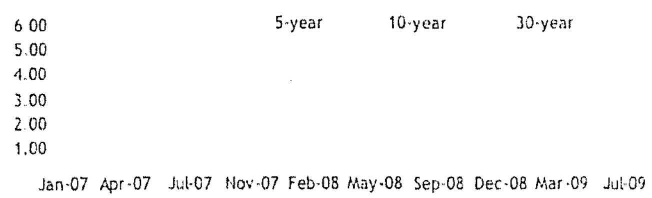
JPMorgan interest rate forecasts (%)

	10-Jul-09	3Q'09	4Q'09	1Q'10	2Q'10
Fed funds rate	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%
3m LIBOR	0.51%	0.50%	0.50%	0.50%	0.50%
2yr UST	0.89%	0.90%	0.85%	1.00%	1.05%
5yr UST	2.21%	2.30%	2.00%	2.20%	2.35%
10yr UST	3.30%	3.25%	3.00%	3.25%	3.50%
30yr UST*	4.20%	4.00%	3.70%	3.90%	4.10%
2s/10s curve	241 bps	235 bps	215 bps	225 bps	245 bps
10s/30s curve	90 bps	75 bps	70 bps	65 bps	60 bps

J.P. Morgan forecast as of 07/10/09; forecasts are for quarter-end

3.500% Treasury due Feb-2039

Historical Treasury rates (%)



Source: Bloomberg

Investment grade primary and secondary market update

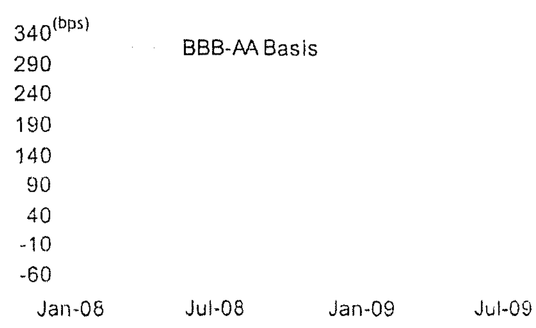
- High Grade bond spreads have declined 18bps over the past month to 296bps, while yields have fallen 63bps to 5.94%
- Strong spread tightening in 2009 can be attributed to both improving economic fundamentals and strong technicals as bond demand outpaces supply
- The continued attractiveness of HG bond yields can be seen across the maturity spectrum
  - In the short end, HG credit offers a yield pickup of almost three times low UST yields. Recent front end outperformance is a factor of increased demand
  - In the long end, the average yield on bonds in the 10 and 30-yr buckets are 6.2% and 6.7%, respectively, above 6%, historically a target for insurance company portfolios
- Additionally, we may be beginning to see a flight to quality within HG credit, stopping the trend of riskier credits rallying strongly versus higher quality credits
  - Spreads between BBB and AA rated bonds have compressed by over 130bps year-to-date, but the trend has recently stopped
- Positive upcoming earnings should be supportive for credit
- US HG credit was one of the best performing asset classes in 1H09, outperforming Equities, Treasuries, and Commodities
- HG credit should be less sensitive to 2H09 economic data
  - Weaker economic data supports increased allocations to credit at the expense of equities, alternative, and other riskier asset classes
  - If economic data turn more positive, this will likely lead to higher UST yields, supporting lower credit spreads
- Several themes continue to prevail in the new issue market
  - Modest uptick in new issue premiums; however, concessions remain below recent highs
  - Recent performance of new issues has moderated from past tightening
  - Increased investor interest in shorter duration corporate bonds given near zero return on risk-free assets (i.e. cash)
  - Markets will remain volatile
- Upcoming earnings, especially in the financial sector, should be a large driver of supply throughout the summer

Recent new issuance

Issue Date	Maturity	Issuer	Ratings	Coupon	Amt ($mm)	Issue Spread
05/21/09	06/01/19	Panhandle Eastern Pipeline	Baa3/BBB-	8.125 %	150.0	486.2
05/21/09	06/01/16	Gulfstream Natural Gas	Baa2/BBB	6.950 %	300.0	420
05/28/09	06/01/19	Public Service Colorado*	A3/A	5.125 %	400.0	150
06/01/09	08/01/12	Enterprise Products	Baa3/BBB-	4.600 %	500.0	312.5
06/03/09	06/10/10	Pacific Gas & Electric	A3/BBB+	FRN	500.0	3mL+95
06/08/09	06/15/19	Kansas Gas & Electric*	Baa2/BBB	6.700 %	300.0	287.5
06/09/09	07/01/19	Entergy Mississippi*	Baa2/A-	6.640 %	150.0	280
06/19/09	07/15/19	Magellan Midstream Partners	Baa2/BBB	6.550 %	300.0	280
06/22/09	06/28/10	Gulf Power	A2/A	FRN	140.0	3mL+10
06/23/09	06/30/19	Virginia Electric Power Company	Baa1/A-	5.000 %	350.0	137.5
06/24/09	07/15/19	Rochester Gas & Electric*	Baa1/A-	5.900 %	150.0	225
06/24/09	07/15/14	Enogex	Baa3/BBB+	6.875 %	200.0	425.0
07/01/09	07/15/12	MidAmerican Energy Holdings	Baa1/BBB+	3.150 %	250.0	160
07/01/09	05/15/18	Tampa Electric (tap)	Baa1/BBB	6.100 %	100.0	210
07/07/09	07/15/19	Wisconsin Power and Light	A2/A-	5.000 %	250.0	160
07/07/09	07/15/39	Interstate Power and Light	A3/BBB+	6.250 %	300.0	195

*denotes secured issuance

BBB rated spreads have tightened 130bp vs. AA



Source: J.P. Morgan

Capital Markets Update

CITI

Monday, August 3, 2009

Treasury Yield Curve

Maturity	08/03/09	Daily Change
2-year	1.18%	+7 bp
5-year	2.66%	+15 bp
10-year	3.63%	+15 bp
30-year (5/38)	4.40%(4.41%)	+10 bp (+11 bp)
10-yr Swap (mid)	+26 bp	+2 bp
Euro (c/euro)	+144.12	+1.55
Oil (Sep WTI)	71.58	+2.13
Gas (Sep Henry)	4.03	+0.38
3-Month LIBOR	0.47063%	-0.125 bp
Overnight LIBOR	0.24250%	+1.062 bp
CDX IG12 (5 Yr)	+110.9 bp	+0.1 bp

Equity Market Movers

	08/03/09	Daily Change	% Chg
DJIA	9,286.56	+114.96	+1.25%
S&P 500	1,002.63	+15.15	+1.53%
Nasdaq	2,008.61	+30.11	+1.52%
Nikkei	10,352.47	-4.36	-0.04%
VIX	25.56	-0.36	-1.39%
UTY	394.37	+2.69	+0.69%
PNM	12.56	+0.36	+2.95%
CEG	29.48	+0.78	+2.72%
AYE	25.76	+0.55	+2.18%
OGE	30.70	+0.60	+1.99%

Economic Data at Bat

Release	Prev	Citi	Street
Personal Income (Jun)	1.4%	-1.4%	-1.0%
Consumption	0.3%	0.2%	0.2%

Treasury Market

Treasuries fell, with 10-year notes declining the most in two months, as reports on manufacturing and construction spending topped forecasts. The five-year note rose 15 bp, while the 10- and 30-year notes rose 15 bp and 10 bp, respectively. The Treasury expects to borrow a net $406 billion from July through September, compared with a previous estimate of $515 billion, and $486 billion in the three months to Dec. 31, the department said in a statement. The department will announce on Aug. 5 the amount it intends to raise at its quarterly refunding auctions of 3-, 10- and 30-year debt, to be held on three consecutive days beginning August 11. The TED spread narrowed to 29.4 bp, the first time it slid below 30 bp since March of 2007. Former Treasury Secretary Greenspan said in an interview, "We may very well have 2.5 percent (growth) in the current quarter, the reason is there has been such an extraordinarily high rate of inventory liquidation that the production levels are well under consumption."

Equity Market

Stocks rallied, sending the S&P above 1,000 for the first time since November. The Dow rose 1.3% while both the S&P 500 and Nasdaq climbed 1.5%. The utility index underperformed the general market rising only 0.7%. *Freeport-McMoran* climbed 8%, while *U.S. Steel Corp.* increased 8.3%. *Ford Motor Co.* rose to a 15-month high following its first monthly increase in U.S. sales since 2007. *Loews Corp.* advanced 6.9% after the company reported second-quarter operating income of $1.19 a share, beating analysts estimates by 33%. *Barclays PLc* gained 7.8% after the company said pretax profit at its investment bank increased to $1.8 billion. *CIT Group Inc.* surged 18% after the commercial lender boosted its offer price for its $1 billion of floating-rate notes by 6%, and said it lowered it goal for participation. *HSBC* posted net income of $3.35 billion from $7.72 billion, with Asia accounting for 52% of earnings.

Economic Announcements

The **ISM Manufacturing Index** rose to an 11-month high of 48.9 in July. **Motor-vehicle** sales in July rose to 11.3 million unites at a seasonally adjusted annual rate from 9.9 million in June. The production and orders indices were the highest since June 2007.

Power Industry Announcements

FE EARNINGS. FirstEnergy Corp. reported Q2 profit to beat analyst estimates on cost cuts and a gain on the sale of a stake in two coal-fired power plants. Net income climbed 57% to $414 million, or $1.36 a share, from $263 million, or 85 cents, a year earlier, the company said today in a statement. Excluding one-time items such as the asset-sale gain, profit was 87 cents a share, 3 cents higher than the average of six analyst estimates. Revenue was little changed at $3.27 billion. Lower labor costs, reduced non-pension employee benefits and the use of fewer contractors helped lower expenses by $111 million in Q2, the company said. FirstEnergy is set to reduce costs by $330 million this year in response to the recession by trimming staff and salaries and idling some power plants for maintenance, CFO Mark Clark said during a conference call with investors and analysts. The unemployment rate in Ohio reached 11.1% in June, the highest in more than a quarter-century. In Q2, total electricity generation sales fell 12% and total distribution deliveries from the company's utilities dropped 9%, primarily due to a 21% decline in usage from industrial customers and milder weather.

MOODY'S UPGRADES SECURED DEBT. Moody's Investor Service has upgraded the majority of senior secured debt ratings of investment-grade regulated utilities by one notch. "This rating action widens the notching between most senior secured debt ratings and senior unsecured debt ratings of investment-grade regulated utilities to two notches from one previously," said Moody's Vice President-Senior Credit Officer Michael Haggarty. "The wider notching is based on our analysis of the history of regulated utility defaults, which indicates that regulated utilities have defaulted at a lower rate and experienced lower loss given default rates than non-financial, non-utility corporate issuers." This historical analysis was outlined in "Default, Recovery, and Credit Loss Rates for Regulated Utilities, 1983-2008," a report published by Moody's in April along with a request for comment to market participants on the possible implementation of wider notching of ratings in the utility sector. "The study of defaults and the significant disparity in the magnitude of loss given defaults provides a compelling rationale for placing an additional notch between the senior secured and senior unsecured ratings," said Haggarty. There are certain limited exceptions to the wider notching, including senior secured ratings currently under review for possible downgrade or issuers with negative ratings outlooks.

EPRI REPORT. The U.S. needs to build 45 nuclear reactors and reduce power consumption by 8% by 2030 to meet greenhouse-gas emission reductions called for by Congress, a report funded by the electric industry says. The *Electric Power Research Institute*, whose members produce and deliver more than 90% of U.S. power, issued the report Monday. It also calls building 100 million plug-in electric vehicles and retrofitting about 18% of U.S. coal-power plants to capture emissions. "The analysis confirms that while the cost of implementing major CO2 emissions reductions is significant, development and deployment of a full portfolio of technologies will reduce the cost to the U.S. economy by more than $1 trillion," according to a summary of the report. The average U.S. household will pay $16,300 to cover the costs of reducing emissions from the electricity industry through 2050, according to EPRI's analysis. The Congressional Budget Office released a report in June estimating the net cost to households at about $175 annually by 2020. The report forecasts five times more nuclear power capacity than U.S. Energy Department estimates.

PPL SMART GRID PROJECT. **PPL Electric Utilities Corp.** is proposing a $38 million smart grid project for the Harrisburg, Pa., area. According to the company, the project consists of two components: the installation of intelligent electronic devices on the distribution system at PPL Electric Utilities and the development of a complete system model in a distribution management system. The project, which has been proposed to the U.S. Department of Energy, will enable PPL Electric Utilities to move power more efficiently, react instantaneously to changes on the electric delivery system and automatically reroute power around problems that occur, PPL said. The DOE has pledged about $3.3 billion to spur smart grid development. PPL is seeking $19 million in federal funding for the project. Hundreds of new electrical devices will be installed, and a new centralized computer system linked to these devices will track and respond to changes on the delivery system as they happen, PPL added. This could save customers in the project area approximately $1.5 million per year on their electricity bills, PPL Electric Utilities President David DeCampli estimated.

Corporate Financing Activity

Two corporate issuers entered the new issue market on Monday pricing a total of $1.75 billion worth of debt. *Niagara Mohawk,* subsidiary of National Grid, priced $750 million of 10-year debt at a spread of +125 bp. Niagara Mohawk was last in the market in December of 2003.

Issuer	Ratings	$mm	Structure	Coupon	Spread	MW	CoC	Citi	Comments
Niagara Mohawk Power Corp	A3/A-	$750	10 NC/L	4.881%	+125 bp	T+20	--	--	Upsized from $500mm
International Paper Company	Baa3/BBB	$1,000	12 NC/L	7.500%	+387.5 bp	T+50	101	--	Coupon Step-Ups