



RECEIVED

DEC 19 2008

PUBLIC SERVICE  
COMMISSION

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

**Kentucky Utilities Company**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
www.eon-us.com

Rick E. Lovekamp  
Manager - Regulatory Affairs  
T 502-627-3780  
F 502-627-3213  
rick.lovekamp@eon-us.com

December 19, 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 December 15, 2008, KU borrowed \$75 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:	\$75 million
Maturity Date:	December 17, 2018
Interest Rate:	7.035%
Price Paid:	100%
Proceeds:	\$75 million
Commissions Paid:	None
Legal Costs:	None
Security for Loan:	None
Interest Payments:	June 15 and December 15 of each year commencing June 15, 2009

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

Ms. Stephanie L. Stumbo  
December 19, 2008

The interest rate was set using the lowest rate quoted to KU at 4.34% above the yield on the ten-year treasury bond (2.695%). The supporting price indications from the investment banks are attached along with a copy of pages from Bloomberg showing the yield on the treasury bond. The lowest rate quoted to KU by the investment banks was lower than the average bid quoted to E. ON A.G. Once again, the supporting price indications are attached. The bids are summarized in the table below:

	<b>KU Pricing</b>	<b>E.ON AG Pricing</b>
Low bid above ten-year treasury	4.34%	
Ten-year treasury rate	2.695%	
All-in cost	7.035%	
Average bid above ten-year treasury		5.25%
Ten-year treasury rate		2.695%
All-in cost		7.945%

The 434 basis point spread for this ten year borrowing is comparable to that of recent ten-year issuances from other energy companies with similar and slightly lower credit ratings. (See table below along with attached support documentation).

<b>Issuer</b>	<b>Moody's / S&amp;P</b>	<b>Maturity</b>	<b>Spread</b>
Consolidated Edison Co.	A1 / A-	12/1/2018	+ 450 bps
Oklahoma Gas & Electric	A2/ BBB+	1/15/2019	+ 459 bps
Wisconsin Gas Light	A2/AA-	12/5/2018	+475 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

# Indicative First Mortgage Bond Pricing for Kentucky Utilities

---

Ratings (Moody's/S&P): A1(stable)/A(stable)  
As of December 10, 2008

	<u>10 NC/L</u>
Benchmark	3.750% Nov '18
Benchmark Yield	2.68%
<b>Reoffer Spread</b>	<b>T+425 bp area</b>
Reoffer Yield	6.93%
Offering Price	100.000%
Underwriting Commission	0.650%
Proceeds to the Company	99.350%
All-In Cost of Funds	7.02%
<b>All-In Spread</b>	<b>T+434 bp</b>
Swap Spread (Mid)	22 bp
<b>Reoffer Spread to LIBOR</b>	<b>L + 403 bp</b>

---





## New Issue Pricing Indications

### Kentucky Utilities

#### First Mortgage Bonds (A1/A)

	10 Year
Issue Size (MM)	\$75
Coupon Type	Fixed
Reset/Payment	NA/Semi
Call Provision	Make-Whole
Benchmark Treasury	3.750% due 11/18
Benchmark Treasury Yield	2.653%
Reoffer Spread	T + 450 bps Area
Reoffer Yield	7.153%
Underwriting Fees	0.650%
All-in Yield	7.246%
All-in Spread	T + 459 bps Area

#### INTEREST RATE SWAP ECONOMICS

Reoffer Spread to 3M LIBOR	L + 417 bps Area
All-in Spread to 3M LIBOR	L + 426 bps Area



Pricing indications as of December 10, 2008. Assumes a new issue settlement date of December 15, 2008, with interest accruing from December 15, 2008. All yields are quoted on a semiannual basis.

# Financing Considerations

## Indicative New Issue Pricing



### Kentucky Utilities First Mortgage Bonds A1/A

	6-Year	8-Year	10-Year	30-Year
Reference Treasury Yield	1.583%	1.880%	2.631%	3.038%
Reoffer Spread	T+ 462.5 bps	T+ 450 - 462.5 bps	T+ 437.5 - 450 bps	T+ 437.5 bps
Reoffer Yield	6.208%	6.380% - 6.505%	7.005% - 7.131%	7.413%
Gross Spread	0.625%	0.625%	0.650%	0.875%
All-in Yield	6.336%	6.482% - 6.608%	7.099% - 7.224%	7.486%
All-in Fixed Rate Spread	T+ 475 bps	T+ 460 - 473 bps	T+ 447 - 459 bps	T+ 445 bps
Swap Spread	111	98	30	N/A
Swapped vs. 3-Month LIBOR	L+ 352 bps	L+ 352 - 365 bps	L+ 407 - 420 bps	N/A
All-in-Swapped vs. 3-ML	L+ 365 bps	L+ 362 - 375 bps	L+ 417 - 429 bps	N/A

## USD Senior Public Market Indications

E.ON CDS	Mid
3yrs	131
5yrs	112
7yrs	104
10yrs	97

*Prices Indicative as of  
Wednesday 10<sup>th</sup> December*

### USD Benchmark Pricing Indications

Currency	USD	USD	USD
Maturity	5yr Fixed (Nov-13)	10yr Fixed (Nov-18)	30yr Fixed (Nov-38)
Benchmark	3.125% Aug 2013	4.0% Aug 2018	5.0% May 2038
Benchmark Yield (%)	1.60%	2.66%	3.14%
R/O vs US Treasury	538bp Area	500bp Area	500bp Area
R/O vs. \$ Libor	446bp Area	476bp Area	545bp Area
R/O Yield (%)	6.98%Area	7.66%Area	8.14%Area
R/O vs. EUR MidSwap	386bp Area	451bp Area	535bp Area
R/O EUR Yield	7.35% Area	8.41% Area	8.98% Area

E.ON

Market Update:

- EUR/GBP Market:
  - Today, Morgan Stanley is a lead bookrunner on a GECC government guaranteed €1.75 Bn 3.5yr transaction which is expected to price at m/s + 70bps
  - Tuesday, Daimler (A3/A-) priced a €600 MM 1.5yr issue at m/s + 515bps
- USD Market:
  - Today, GECC is in the market to increase its government guaranteed issuance by \$2.55 Bn. Morgan Stanley is again lead bookrunner
  - Tuesday, FPL Group (A2/A-) issued a \$450 MM 7yr bond at T + 596.7bps
  - The same day, Dupont (A2/A) issued a \$1 Bn 5yr bond at T + 437bps
  - On Monday, Shell (Aa1/AA+) has issued a \$2.75 Bn 30yr deal at T + 325bps
  - The same day, Wisconsin Electric Power (A1/A-) issued a \$250 MM 6yr bond at T + 425bps

Morgan Stanley

## Senior Bond Pricing Update

Morgan Stanley, 10 Dec 2008

### E.ON Pricing Indications

In bps

Maturity	Euro Market	USD Market		GBP Market	
	€ m/s +	T +	€ m/s +	G +	€ m/s +
3y (2011)	150 area				
5y (2013)	200 area	550 area	410 area		
7y (2015)	220 area				
10y (2018)	250 area	525 area	482 area		
Tap EOANGR 2019s				300 – 310 area	269 – 279 area
12y (2020)	270 area			310 area	309 area
15y (2023)				300 – 310 area	338 – 348 area
20y (2028)				300 – 310 area	358 – 368 area
30y (2038)		525 area	560 area	300 – 310 area	352 – 372 area
Secondaries					
€ EOANGR 4.75 10s	77				
€ EOANGR 5.0 11s	119				
€ EOANGR 5.125 12s	112				
€ EOANGR 5.125 13s	122				
€ EOANGR 5.25 14s	150				
€ EOANGR 5.25 15s	170				
€ EOANGR 5.50 17s	179				
€ EOANGR 5.75 20s	204				
\$ EOANGR 18s		465			
\$ EOANGR 38s		465			
£ EOANGR 6 19s				285/265	
£ EOANGR 6 32s				250/270	
£ EOANGR 5.675 37s				290/270	

5yr CDS = / 120

Investment Bond		Pricing indications (10 December 2008)					
		EUR senior bond pricing		GBP senior bond pricing		USD senior bond pricing	
		Reoffer spread vs. EUR MS+ (bp)		Reoffer spread vs. G2s+ (bp) EUR MS+ (bp)		Reoffer spread vs. US1+ (bp) EUR MS+ (bp)	
Nov-10 tap	135 area						
Sep-11 tap	180 area						
5 years	290 area	315 area	320 area	575-600	845-870		
7 years	300 area	325 area	328 area	575-600	875-900		
10 years	320 area	340 area	310 area	590-625	875-900		
12 years		340 area	318 area				
15 years		350 area	320 area				
20 years		350 area	405 area				
30 years							

#### Comments

- Credit spreads have moved closer to all-time highs again last mid-week late last week. The 10-year main stands at 105bps and the 10-year crossover at 1026bps.

- EUR market: After heavy bounce activity across the utility, retail, and chemical sector, EUR investor interest starts to wane into year end. However, GE (Aaa/AAA) priced a FDIC guaranteed 3.5y (EUR) 75bn transaction at MS+70bps and Daimler (A3/A-) priced 18 month EUR 600m transaction at MS+515bps. Coca Cola Hellenic Bottling (A3/A-) is expected to price (EUR) 500m at MS+450bps in 5y in the next couple of days.

- GBP market: ENI (Aa2/AA-) priced a small GBP 150m 10y transaction at G+250bps (new issue premium of 100bps vs. CDS) after a relatively quiet period since EDF priced 2.14x benchmark on 07-08.

- USD market: Among the European issuers, Shell (Aa1/AA-) raised US\$2.75bn in 30y at 71.325bps (curve adjusted new issue premium vs. secondaries of 75bps). Among US utilities, PPL Group (A2/A), California Gas & Electric (A2/Baa2), Wisconsin Electric (A1/A-), Potomac Electric (Baa2/Baa3) across 7-20 years.

- CHF market: The "utility-streak" is coming to an end with another fan of the 4y GdF transaction.

- Indications: CDO indications continue to compare well vs. EUR and are tighter around 100bps across the curve vs. last week in EUR and GBP given less supply pressure into year end. USD indications are weaker due to still significant supply over the past days.

E.ON bonds in the secondary markets						CDS comparables	
Currency	Maturity	Coupon	Amount (ml)	Reference spread	Spread (MS+)	Issuer	5y
EUR							
EUR	Oct-19	6.000%	600	G+250	233	E.ON	125
EUR	Jun-21	6.125%	975	G+233	144	EDF	165
EUR	Oct-37	5.875%	900	G+280	319	Enel	535
						Generale	240
						RWE	50
						Vattenfall	103
EUR							
EUR	Nov-10	4.750%	1,000		60		
EUR	Sep-11	5.000%	750		116		
EUR	Oct-12	5.125%	1,750		103		
EUR	May-13	5.125%	1,700		126		
EUR	Sep-15	5.250%	1,750		170		
EUR	Oct-17	5.500%	2,375		178		
EUR	May-20	5.750%	1,400		205		
USD							
EUR	Apr-18	5.800%	1,000	US1+450	455		
EUR	Apr-38	6.650%	1,000	US1+490	532		
CHF							
EUR	Dec-10	3.000%	200		110		
EUR	Sep-12	3.250%	250		104		
EUR	Dec-12	3.875%	250		117		
EUR	May-13	3.625%	300		134		
EUR	Dec-14	3.250%	225		130		

\* All in domestic currency

Source: C&I Investment Bank, 10/12/08

McLerran & Co. Deutsche Bank

This information is confidential and is for the use of the recipient only. It is intended to be used for informational purposes only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes.

This information is confidential and is for the use of the recipient only. It is intended to be used for informational purposes only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes.

This information is confidential and is for the use of the recipient only. It is intended to be used for informational purposes only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes.

This information is confidential and is for the use of the recipient only. It is intended to be used for informational purposes only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes.

This information is confidential and is for the use of the recipient only. It is intended to be used for informational purposes only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes. The information is provided for your information only and does not constitute an offer of securities or any other financial product. It is not intended to be used for investment purposes.



GRAB

Govt **YAS**

Enter 12<60> for Comparable Bond Spread Analysis

### YIELD & SPREAD ANALYSIS

CUSIP912828JR PCS BGN

US TREASURY N/B T 3 <sup>3</sup>/<sub>4</sub> 11/15/18 109-03+ /109-04+ ( 2.70 /69) BGN @14:20

SETTLE 12/12/08 FACE AMT 1000 M or PROCEEDS 1,094,046.96

1) YA	YIELDS	2) YASD
PRICE	109-4	rnd to 3 decimal <input type="checkbox"/>
YIELD	2.696	Wst
SPRD	0.00	bp yld-decimals <input type="checkbox"/> / <input type="checkbox"/>

RISK & HEDGE RATIOS	T 3 <sup>3</sup> / <sub>4</sub> 11/15/18		HEDGE BOND
	workout	OAS	OAS
Mod Dur	8.33	8.60	8.60
Risk	9.108	9.410	9.411
Convexity	0.81	0.85	0.85

versus

10yr T 3 <sup>3</sup>/<sub>4</sub> 11/15/18 BENCHMARK

PRICE 109-4 Save Delete

YIELD 2.696 % sd: 12/12/08

Workout HEDGE Amount: 1,000 M

OAS HEDGE Amount: 1,000 M

Yields are: Semi-Annual

12) CBS

3) OAS	SPREADS	4) ASW
OAS: 0.2	CRV# CMT VOL	Opt
OAS:	CRV# TED:	35.0

5) FPA	FINANCING	
Repo% 0.200	(360/365) 360	Days 1
Int Income	103.59	Carry P&L
Fin Cost	-6.08	97.51
Amortiz	-22.66<->	74.85
Forwrd Prc	109.115249	
Prc Drop	0.009751	
Drop (bp)	0.08	
Accrued Interest /100	0.279696	
Number Of Days Accrued	27	

ASW (M/M)	-21.6	ZSPR	-21.1	11) History
CRV# 152	US Dollar Swap Rat			
ISPRD -21.5	DSPRD	-20.2		

Yield Curve: 125	US Treasury Actives
+ 0	v 9.9yr ( 2.696 %) INTERPOLATED
+ 186	v 2yr ( 0.84) T 1 <sup>1</sup> / <sub>4</sub> 11/30/10
+ 152	v 3yr ( 1.18) T 1 <sup>1</sup> / <sub>8</sub> 12/15/11
+ 108	v 5yr ( 1.62) T 2 11/30/13

# U.S. Debt Capital Markets update

## Utility & Pipeline sectors

### For distribution to issuer clients only

New York Peter Madonia, MD (212) 834-3806  
 Week ending Anisha Mehra, ED (212) 834-4918  
 December 5, 2008 Steve Leamer, Assoc (212) 834-4084  
 Stephanie Wai, Analyst (212) 834 3117

#### Economic and Treasury market update

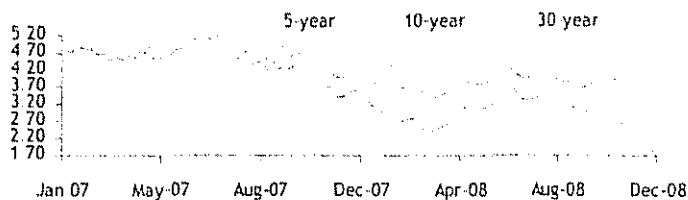
- Last week, FOMC Chairman Bernanke signaled a policy shift towards quantitative easing, as the Fed may purchase Treasury securities in order to combat a deepening recession
  - Further decisions on policy initiatives are likely to come at the December 15-16 FOMC meeting, as continued Fed Funds easing is limited
  - J.P. Morgan forecasts the Fed adopting a zero interest rate policy, cutting the Fed funds target to 0% by January 2009
- A committee of economists at the National Bureau for Economic Research (NBER) officially declared the economy in a recession since December 2007, making the current contraction the longest since 1982
  - The committee judged the recession on four key monthly economic indicators including employment, industrial output and sales, rather than the traditional measure of two consecutive quarterly declines in gross domestic product
- Concerns around the depth of the recession worsened as change in nonfarm payrolls surprised to the downside at -533K vs market expectations of -335K, marking the largest monthly drop since 1974
  - The unemployment rate also climbed to 6.7% from 6.5% last month
- The auto industry continues to ask Congress for a rescue package, likely adding to the government's support of troubled sectors

#### J.P. Morgan interest rate forecast (%)

	5-Dec-08	4Q-08	1Q-09	2Q-09	3Q-09
Fed funds rate	1.00%	0.50%	0.00%	0.00%	0.00%
3m LIBOR	2.19%	1.80%	1.45%	1.30%	1.15%
2yr UST	0.93%	0.85%	0.75%	0.60%	0.50%
5yr UST	1.67%	1.75%	1.55%	1.30%	1.15%
10yr UST	2.65%	3.00%	2.80%	2.50%	2.35%
30yr UST*	3.11%	3.65%	3.40%	3.10%	3.00%
2s/10s curve	172 bps	215 bps	285 bps	190 bps	185 bps
10s/30s curve	46 bps	65 bps	60 bps	60 bps	65 bps

J.P. Morgan forecast as of 12/05/08; forecasts are for quarter-end  
 \* 3.75% Treasury rate Feb-2036

#### Historical treasury rates (%)



Source: Bloomberg

#### Investment grade primary and secondary market update

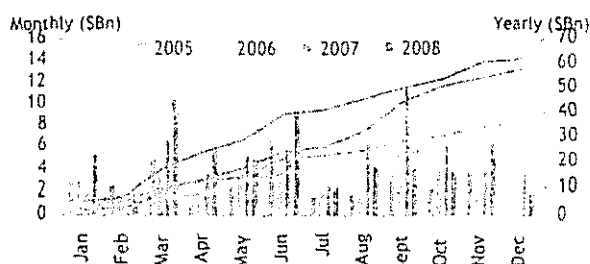
- High grade bond spreads are unlikely to rally meaningfully in the coming months, with investors continuing to be cash constrained
  - Traditional high grade bond investors, insurance companies, financial companies, asset managers and foreign investors, are not expected to be aggressive buyers of bonds in the near term
- The sustained Treasury rally continues to pressure credit spreads
- The outlook for high grade bond valuations balances tightening from historic wides with a rapidly deteriorating economic environment and worsening credit fundamentals
  - Few catalysts exist for spread tightening in 1H'09
  - Recent economic data confirms depth of recession similar to that of the early 1980's
  - Full effect of the economic downturn expected to appear in weaker 4Q'08 corporate results
  - High grade bonds remain expensive vs. alternative asset classes
  - Looming supply overhang with a record amount of redemptions (\$650bn in 2009)
  - High grade credit spreads and yields should begin to decline in 2H'09 as the massive fiscal and monetary interventions begin to work
  - Government investment via TARP, TLGP, economic stimulus packages and other future government programs
- Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Citigroup, Wells Fargo, Royal Bank of Scotland, and GE have all issued under the FDIC's Temporary Liquidity Guarantee Program (TLGP) for a total of \$48bn
- Heading into year end, new issue markets have still not completely opened to "BBB" issuers, with only 6 BBB Industrial issuers coming to market since Lehman's chapter 11 filing
- As has been the case recently, utility and pipeline sector issuance dominated the market last week:
  - Wisconsin Public Service (Aa3/A+) issued \$250mm 7-yr FMBs at a yield of 6.375% (T+434.5bps). This was the first utility sector 7-yr issued since May. J.P. Morgan was bookrunner
  - Consolidated Edison Company of NY (A1/A-) announced a benchmark sized issuance of 10-yr notes. Due to substantial demand, ConEd was able to price \$600mm at T+450bps. J.P. Morgan was bookrunner
  - Potomac Electric Power Company (Baa1/BBB-) issued \$250mm 30-yr FMBs at a yield of 7.9% (T+462.7bps). This was the first 30-yr utility issuance in 2 months, and due to significant demand for longer dated utility paper, Pepco was able to price through initial guidance. J.P. Morgan was bookrunner
  - Enterprise Products Operating (Baa3/BBB-) priced \$500mm 5-yrs at a yield of 9.75%. This is the first MLP issuance since July
  - Central Illinois Light Company (Baa2/BBB+) an Ameren operating utility issued \$150 FMBs at a yield of 8.875%

#### Recent utility and pipeline issuance

Issue Date	Maturity	Issuer	Ratings	Coupon	Yield	Am't (\$mm)	Issue Spread
11/21/08	11/01/13	Public Service Electric & Gas	A3/A-	6.330%	6.339%	275.0	412.5
11/25/08	01/15/19	Dominion Resources	Baa2/A-	6.875%	8.675%	600.0	678.9
12/01/08	12/01/15	Wisconsin Public Service	Aa3/A+	6.375%	6.375%	125.0	434.5
12/02/08	12/01/18	Consolidated Edison Company	A1/A-	7.125%	7.176%	600.0	450
12/02/08	12/01/18	Wisconsin Gas Light	A3/A-	7.464%	7.464%	50.0	475.4
12/03/08	12/15/38	Potomac Electric Power	Baa1/BBB-	7.900%	7.900%	250.0	462.7
12/03/08	01/31/14	Enterprise Products Operating	Baa3/BBB-	9.750%	9.750%	500.0	613.9
12/04/08	12/15/12	Central Illinois Light Company	Baa2/BBB+	8.875%	8.875%	150.0	734.9

Common issued a 100.45 bps; Bonles referred issuance; Trading indicates J.P. led transactions

#### Utility and Pipeline new issue supply (\$Bn)



Source: Securities Data Corp

Barclays Capital Weekly Utility DCM Update (December 5 – December 12)

Rates / Equities

**U.S. RATES**

USD	Covt (%)	Wkly Δ	Wkly Δ (%)	Swp (%)	Swp (bp)	Wkly Δ
2Y	0.76	-16.5	-17.60%	1.62	105.3	-16.8
5Y	1.52	-18.0	-10.61%	2.38	86.1	-12.9
7Y	1.75	-21.6	-10.96%	2.60	84.4	-12.8
10Y	2.57	-13.3	-4.92%	2.75	18.1	-11.8
30Y	3.04	-8.2	-2.62%	2.73	-31.8	-0.9

**MONEY MARKET RATES**

Term	Current	Wkly Δ	(%)	Term	Rate
Libor				Fed Funds	
3M	1.921	-0.3	-17.1%	Overnight	0.14
6M	2.220	-0.3	-13.0%	1 week	0.50
1Y	2.419	-0.3	-10.2%	3 month	2.60

**CREDIT INDICES**

	Current	Wkly Δ	(%)	OTHERS	Current	Wkly Δ	(%)
IC11	255.00	-9.0	-3.3%	VIX	55.6	-5.7	-9.30%
Credit IDX	538.00	-7.0	-1.3%				

**FOREIGN EXCHANGE RATES**

	Current	Wkly Δ	(%)	EQUITIES	Current	Wkly Δ	(%)
EUR	1.54	0.07	5.1%	DOW	8629.68	-5.74	-0.1%
GBP	1.49	0.03	1.8%	S&P	879.73	3.66	0.4%
JPY	91.15	-1.69	-1.8%	NASDAQ	1540.72	31.41	2.1%

**COMMODITIES**

	Current	Wkly Δ	(%)		Current	Wkly Δ	(%)
CRUDE	41.66	-12.77	-24.4%	NAT GAS	5.76	-0.77	-11.80%

Market Commentary

**OPPORTUNITY**

- Given historically low treasury yields, issuers can use treasury locks to capture low rates for future debt issuance. Issuers with upcoming maturities in 2009 or with other financing needs in the upcoming year, can lock-in rates before their expected rise. More specifically, by Q4 2009, Barclays forecasts treasury yields to rise by 40 – 60 bps across the curve as a result of increased Treasury supply and an improvement in the economy, making this opportunity particularly attractive. Please call the desk for additional details.

- NEW ISSUE COMMENTARY**
- Trying to access liquidity before year end, issuers continue to be active in the primary market as financials and utilities dominated new issuance. Over the course of the week, 19 companies priced \$38.35bn in supply, with \$28.25bn coming from FDIC-Guaranteed notes.
  - On Monday, Shell International Finance priced \$2.75bn 30-year notes (Aa1/AA+) at T + 325 with a 6.375% coupon. Proceeds will be used for general corporate purposes. The offering represents Shell's first issuance since 2007 and their inaugural 30 year transaction. Barclays Capital was a bookrunner on this offering.
  - Also on Monday, Oklahoma Gas & Electric priced \$250mm 10-year Senior Unsecured Notes (A2/BBB+) at 8.25% (T + 459.2).
  - Wisconsin Electric Power, the operating subsidiary of Wisconsin Electric, priced \$250mm 7-year Notes (A1/A-) at 6.25% (T - 425). Net proceeds will be used to repay short-term debt and for working capital and other general corporate purposes. The new issue pricing represents a 75bp new issue concession.
  - On Tuesday, FPL Group Capital priced \$450mm 7-year Notes (A2/A-) at 7.875% (T + 596.7). The transaction was upsized by \$200mm, and final pricing came at the wide end of the guided range, equating to a corresponding spread of -556.7. Net Proceeds will be used to repay a portion of commercial paper issued to fund investments by the Company in independent power projects, including renewable power projects.
  - In the high yield space, El Paso (Baa3/BB-) issued \$500 million in 5-year senior unsecured notes with a coupon of 12% (T + 1362) yielding 15.25%. The proceeds were used to refinance debt maturing next year. The offering marks the first high-yield bond offering since October in a sign that certain high-yield issuers have access to capital.
  - On Wednesday, Monongahela Power, a subsidiary of Allegheny Energy, priced \$300mm 5-year First Mortgage Bonds (Baa2 /BBB-) with a coupon of 7.95% (T - 639.4bps). The offering represents Monongahela's first offering since 2006.

**MARKET COMMENTARY**

- Treasuries rallied 8-22 bps this week, with a flattening bias, as investors fled to the safety of government debt amid uncertainty over the passage of auto bailout legislation. The 5- and 10-year rallied 18 bps and 13 bps, respectively.
- IG11 tightened 9bps to 265bps this week, while the Credit Index tightened 7bps to 538bps. The Dow fell 6 points on the week as the uncertainty surrounding auto solvency and grim corporate earnings forecasts weighed on investor confidence. The possibility of a Big Three bankruptcy had a ripple effect on stocks as shares of parts makers, steel makers, and oil companies fell sharply.
- The Producer Price Index fell 2.3% (exp. -2.0%) in November on a record reduction in gasoline costs, a sign the recession is cutting demand for fuel. November Retail Sales fell 1.8% (exp. -2.0%) extending the longest string of declines since 1992, as slumps at auto dealers and service stations trumped gains at electric and department stores. Consumer Confidence came in higher than expected at 59.1 (exp. 54.9) and well above October's 55.3 reading.
- Today, the Treasury offered to bail out the automakers after the Senate failed to approve emergency loans last night. The Treasury's statement does not mention using TARP money, but a White House spokeswoman stated that the Bush administration has considered using the program to keep the auto companies afloat.

New Issue Market

DOMESTIC ISSUANCE THIS WEEK (excludes FDIC guaranteed issuance)

DATE	ISSUER	AMT	RATINGS	MTY	CPN	SPRD	INDUSTRY
12/10	Monongahela Power*	300	Baa2 / BBB-	12/15/2013	7.950	+639	Utilities
12/9	FPL Group Capital	450	A2 / A-	12/15/2015	7.875	+596.7	Utilities
12/9	El Paso	500	Ba3 / BB-	12/12/2013	12.000	+1362	Energy
12/9	Du Pont	1,000	A2 / A-	1/15/2014	5.875	+437	Basic Materials
12/8	Shell International Finance	2,750	Aa1 / AA+	12/15/2038	6.375	+325	Energy
12/8	Wisconsin Electric Power	250	A1 / A-	12/1/2015	6.250	+425	Utilities
12/8	Cox Communications	600	Baa3 / BBB-	1/15/2019	9.375	+675	Communications
12/8	Oklahoma Gas and Electric	250	A2 / BBB-	1/15/19	8.250	+459	Utilities
12/8	General Dynamics	1,000	A2 / A-	2/1/14	5.250	+370	Industrial

\*Secured Note. Barclays led offerings have been highlighted.

Question of the Week: What is the most popular Christmas Carol?



The information herein is prepared by Barclays Capital, the investment banking division of Barclays Bank PLC, and its affiliates worldwide. Barclays Capital is providing this information to the recipient on the understanding that it will be used as a source of information only and not as a substitute for independent research and analysis. Barclays Capital and its affiliates do not represent or warrant the accuracy or timeliness of this information, and the recipient will be responsible for verifying the accuracy of this information. Barclays Capital does not represent or warrant the accuracy or timeliness of this information, and the recipient will be responsible for verifying the accuracy of this information. Barclays Capital does not represent or warrant the accuracy or timeliness of this information, and the recipient will be responsible for verifying the accuracy of this information. Barclays Capital does not represent or warrant the accuracy or timeliness of this information, and the recipient will be responsible for verifying the accuracy of this information.