

BIG RIVERS ELECTRIC CORPORATION

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR A GENERAL ADJUSTMENT IN RATES
CASE NO. 2011-00036**

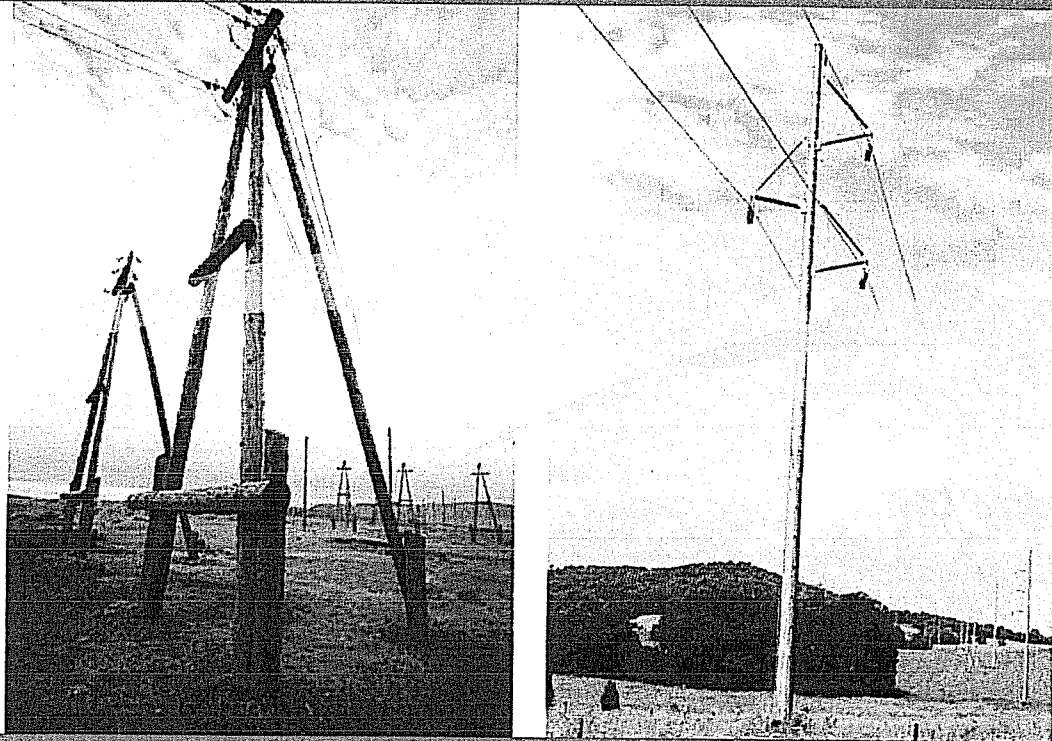
Attachment for
Big Rivers' First Supplemental Response to KIUC 1-110

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JUN 29 2011

**PUBLIC SERVICE
COMMISSION**

ANNUAL REPORT
2010



RETOOLING FOR THE FUTURE...

Big Rivers
ELECTRIC CORPORATION



OUR MISSION

Big Rivers will safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members.

OUR VISION

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the members desire in meeting future challenges.

OUR VALUES

- ▣ Safety
- ▣ Integrity
- ▣ Excellence
- ▣ Member and Community Service
- ▣ Respect for the Employee
- ▣ Teamwork
- ▣ Environmentally Conscious

FINANCIAL HIGHLIGHTS

For the years ended December 31, 2010, 2009, 2008, 2007, and 2006 | (Dollars in thousands)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---------|---------|-----------|-----------|-----------|
| Margins | 6,991 | 531,330 | 27,816 | 47,177 | 34,542 |
| Equity | 386,575 | 379,392 | (154,602) | (174,137) | (217,371) |
| Capital Expenditures* | 42,683 | 58,388 | 22,760 | 18,682 | 13,189 |
| Cash & Investment Balance | 44,780 | 60,290 | 38,903 | 148,914 | 96,143 |
| RUS Series A Note Voluntary Prepayment Status | 23,859 | — | — | — | 34,995 |
| Times Interest Earned Ratio | 1.15 | 9.85 | 1.37 | 1.64 | 1.47 |
| Debt Service Coverage Ratio | 1.47 | 2.44 | 1.17 | 2.04 | 1.86 |
| Cost of Debt | 5.73% | 6.33% | 6.33% | 5.76% | 5.83% |
| Cost of Capital | 7.93% | 8.39% | 8.33% | 7.75% | 7.82% |

* Big Rivers' share only.

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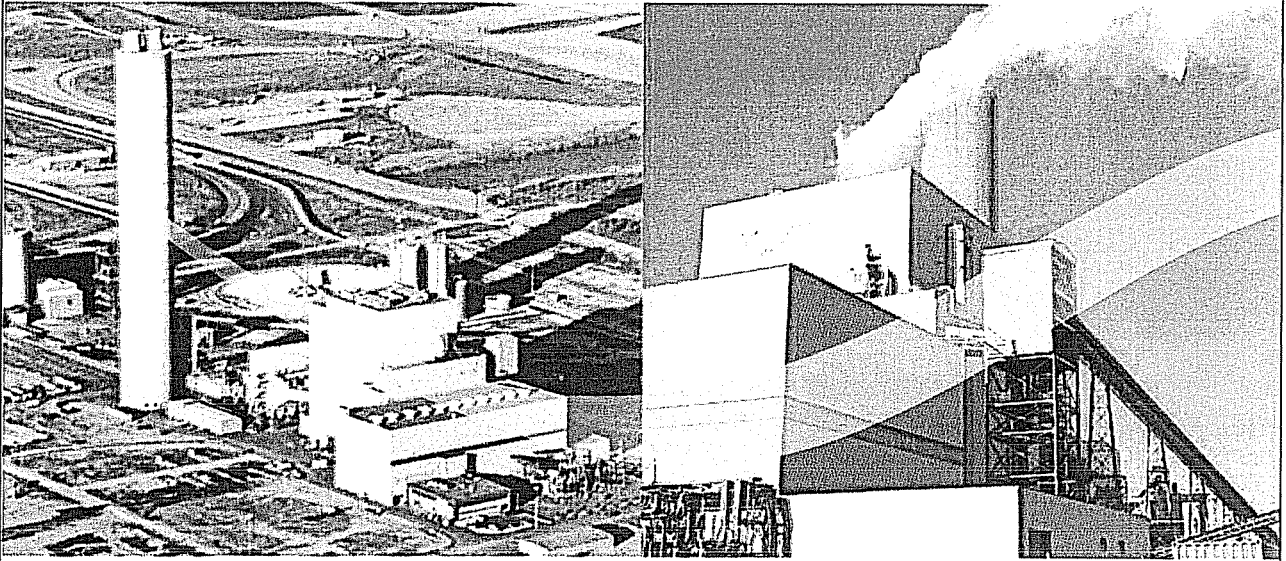


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ABOUT THE BIG RIVERS SYSTEM

Big Rivers Electric Corporation ("Big Rivers") is a member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative members across 22 counties in western Kentucky.

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, they distribute retail electric power and provide other services to more than 112,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee.

With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

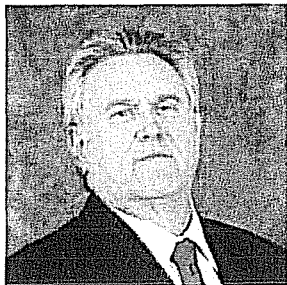
| | | |
|--------------------|----------|-----------------|
| Kenneth C. Coleman | 443 MW | Hawesville, Ky. |
| Robert A. Reid | 130 MW | Robards, Ky. |
| Robert D. Green | 454 MW | Robards, Ky. |
| D. B. Wilson | 417 MW | Centertown, Ky. |
| <hr/> | | |
| Owned Generation | 1,444 MW | |

Total generation available is 1,829 MW, including rights to Henderson Municipal Power and Light ("HMP&L") Station Two and contracted capacity from Southeastern Power Administration ("SEPA").

| | |
|-------------------|----------|
| Owned Generation | 1,444 MW |
| HMP&L Station Two | 207 MW |
| SEPA | 178 MW |
| <hr/> | |
| Total Generation | 1,829 MW |

THE MISSION OF **BIG RIVERS** IS TO SAFELY DELIVER
LOW COST, RELIABLE WHOLESALE POWER
AND **SHARED SERVICES**

MEMBER COOPERATIVES



Kelly Nuckols, *President & CEO*
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

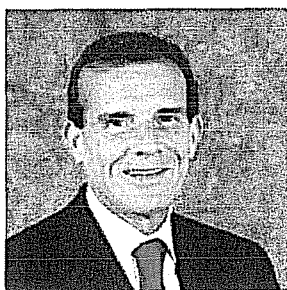


Serves: Ballard, Carlisle, Graves, Livingston, Marshall and McCracken

Headquartered: Paducah, KY

Number of accounts: 29,152

Miles of line: 2,909



Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

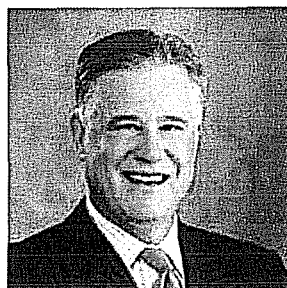


Serves: Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster

Headquartered: Henderson, KY

Number of meters: 54,991

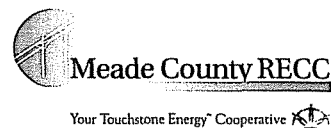
Miles of line: 7,023



Burns Mercer, *President & CEO*
Meade County RECC

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

(270) 422-2162
www.mcrecc.coop



Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered: Brandenburg, KY

Number of meters: 28,267

Miles of line: 2,977

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BOARD OF DIRECTORS



Standing (left to right):

Dr. James Sills, Chair
Meade County RECC

Wayne Elliott, Vice-Chair
Jackson Purchase Energy Corporation

William Denton
Kenergy Corp.

Seated (left to right):

Lee Bearden
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder, Secretary-Treasurer
Kenergy Corp.

MANAGEMENT TEAM



Standing (left to right):

Marty Littrel, *Communications & Community Relations Manager*

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett,
V.P. System Operations

James Haner,
V.P. Administrative Services

James Miller, *Corporate Counsel*

Paula Mitchell, *Executive Assistant*

Seated (left to right):

Mark Hite, *V.P. Accounting*

C. William Blackburn, *Senior V.P. Financial & Energy Services & CFO*

Mark Bailey, *President & CEO*

Robert Berry, *V.P. Production*



MESSAGE FROM THE BOARD CHAIR AND CEO

The year 2010 marked transition and significant achievement for Big Rivers Electric Corporation. This was our first complete year operating as a full-fledged generation and transmission cooperative, since the Unwind closing in July 2009.

During 2010 many of the longer-term initiatives, planned to be finished following the Unwind closing, were successfully completed.

- Major renovation was completed in April at the central headquarters building to accommodate the additional employees returning to Big Rivers from the former Western Kentucky Energy central office following the Unwind consolidation.
- \$83.3 million of pollution control bonds were refinanced in June.
- An energy efficiency study of the member systems was completed, with results to be implemented in 2011.
- An integrated resource plan was developed and filed with the Kentucky Public Service Commission.
- Implementation began on a workforce retirement transition plan in the power generation department.
- Information technology support was migrated from E.ON to Big Rivers' contracted HP/EDS and internal resources.
- The Oracle information systems business platform conversion was successfully completed in November.
- Kentucky Public Service Commission approval for Big Rivers to join the Midwest Independent Transmission System Operator (Midwest ISO) was sought and secured, and the company successfully integrated in December.
- Generation dispatch responsibility migrated

RETOOLING FOR THE FUTURE...

to ACES Power Marketing from E.ON upon our joining the Midwest ISO.

- System microwave expansion and internal communication ties with Big Rivers' generating stations were completed.

Undertaking these projects with a relatively small employee complement, while simultaneously embracing a newly integrated business, required strong organizational planning and a dedicated work force. That effort was most evident by our ability to complete these objectives while achieving several significant operational results within the same year.

- Employee safety targets were exceeded.
- Generating plants operated at new all-time record levels.
- Earning targets were achieved while keeping members' rates amongst the lowest in Kentucky and the rest of the nation.
- Transmission reliability was at a high level.
- Our strategic plan was updated.

In December the Big Rivers board of directors elected new officers. Dr. James Sills of Meade County Rural Electric Cooperative Corporation became the new board chair while Wayne Elliott of Jackson Purchase Energy Corporation was chosen vice-chair, and Larry Elder of Kenergy Corp. became the secretary-treasurer.

We at Big Rivers are grateful to the outgoing board chair, Bill Denton, for his 12 years of steadfast leadership that included six-plus years of tortuous deliberations that lead to the successful completion of the Unwind. His effort, support, and guidance helped lead Big Rivers to its best financial condition in its history following the ter-

mination of the lease agreement with E.ON U.S.

Looking ahead, we see a new set of challenges. There have been a number of significant rules proposed by the U.S. Environmental Protection Agency ("EPA") that could lead to a dramatic increase in the price of electricity and have a significant impact on how we run our business. A great deal of uncertainty exists around these proposed environmental regulations and their impacts on rates, reliability, our operations and the economy.

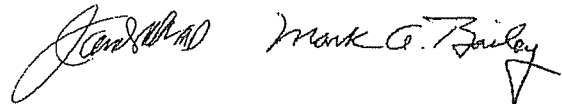
Both the board of directors and our staff are committed to examining the potential impacts of these regulations and to communicate what they mean to regulators, legislatures, and our members. Clearly, we must retool our approach to successfully meet these as well as other challenges ahead.

One constant that will remain as this effort progresses will be our dedicated and loyal workforce who will continue to help us successfully navigate the uncertain waters ahead.

We are certain that through good communications and teamwork, we will continue to achieve our mission of safely providing low cost and reliable electricity and attain our vision to be viewed as one of the top generation and transmission cooperatives in the country.

Dr. James Sills
Chair, Board of Directors

Mark A. Bailey
President and CEO



At Big Rivers Electric Corporation, our board of directors and senior leadership team believe corporate values are instrumental in our quest to continue to meet our mission and attain our vision of being viewed as one of the top generation and transmission cooperatives (G&Ts) in the country.

These values: teamwork, integrity, excellence, safety, member and community service, environmentally conscience and respect for the employee form the basis of the framework of the remainder of this report.

TEAMWORK

As a power supplier owned by the distribution cooperatives it serves, Big Rivers' mission is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by our members. In order to achieve this target, Big Rivers relies on a dedicated workforce composed of employees committed to the company's success. Teamwork is a core value for Big Rivers since it is one of the key factors necessary for the company to achieve its mission.

Big Rivers continued its partnership with HP Enterprise Services to install new Oracle business platform software, which went live in November 2010. Since then all locations and departments run on the integrated system. The new system was designed, built and tested during most of 2010. The entire staff worked diligently to get the new system up and running, while simultaneously continuing to perform regular business duties. This cutting-edge technology should improve the performance, quality and reliability of our computer applications.

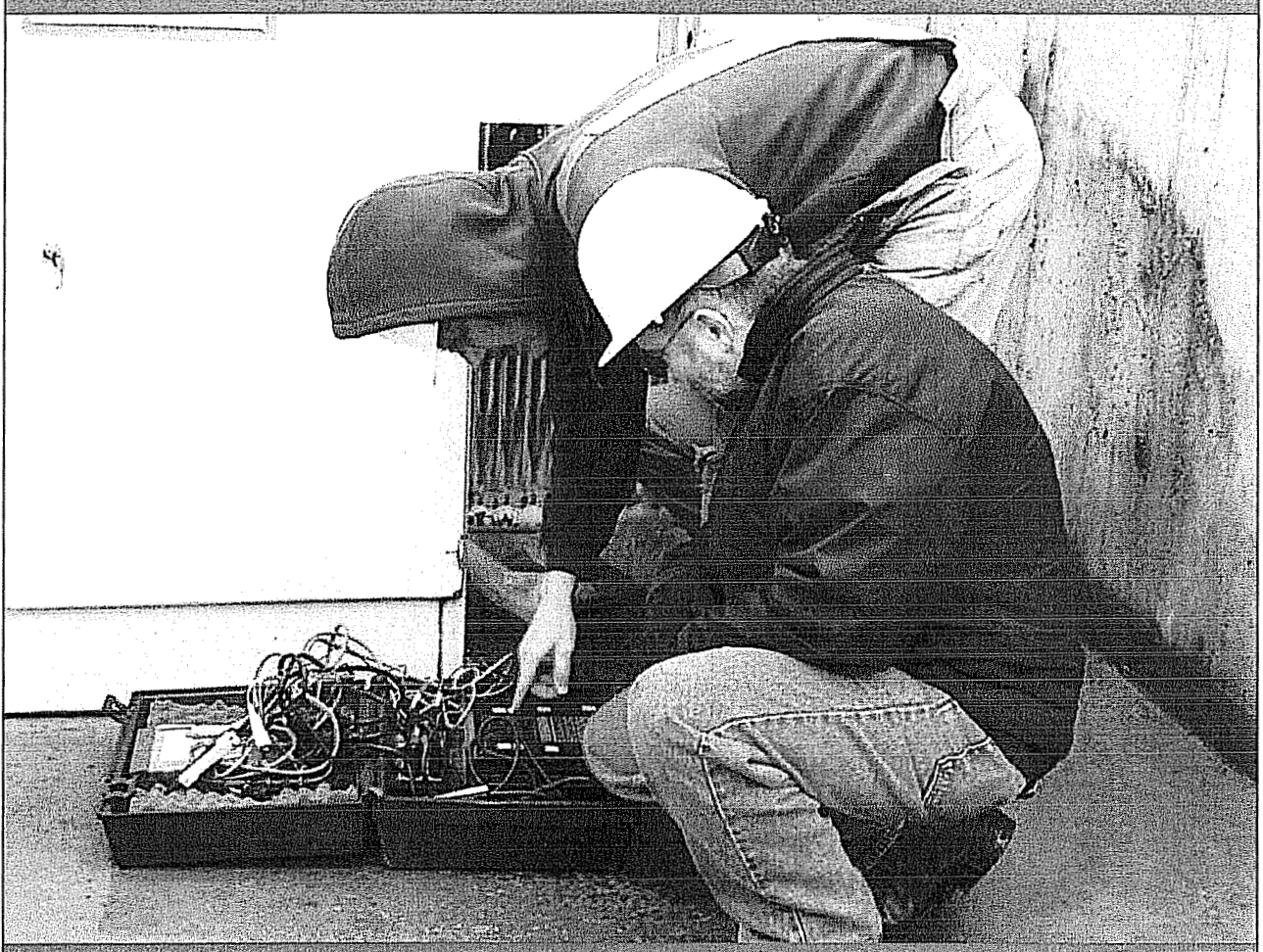
Big Rivers became the thirty-fifth transmission-owning member of the Midwest Independent Transmission System Operator ("Midwest ISO") in December 2010 and the fifth new member since November 2009. The Midwest ISO is a non-profit and revenue-neutral transmission organization that provides electricity at the lowest price while managing one of the largest energy markets in the world, involving nearly \$23

billion in energy transactions per year. Midwest ISO has a reliability footprint that covers all or parts of 13 states, plus the Canadian province of Manitoba. Big Rivers integration brings the Midwest ISO's total market generation to more than 145,000 megawatts. Membership provides Big Rivers market access to 57,453 miles of interconnected transmission lines and up to 347 market participants.

Big Rivers worked much of 2010 to file and secure approval from the Kentucky Public Service Commission ("KPSC") to join the Midwest ISO. After nearly a year of work, Big Rivers reached a settlement with the Kentucky Attorney General and the Kentucky Industrial Utilities Customers, which led to final KPSC approval for full integration into the Midwest energy markets.

Teaming with the Midwest ISO is important to Big Rivers because the relationship allows the company to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. Our membership into the Midwest ISO provides market services for energy, operating reserves, and transmission service as well as serving as Big Rivers' regional balancing authority. This arrangement ensures reliable operation of our generation and transmission system while increasing our access to wholesale power markets. Working with the Midwest ISO was the most cost-effective alternative for meeting these requirements, which helps Big Rivers fulfill its mission.

RETOOLING FOR THE FUTURE...



BIG RIVERS RELIES ON A
GREAT WORKFORCE
COMPOSED OF EMPLOYEES DEDICATED TO ITS
SUCCESS

INTEGRITY

Big Rivers makes every effort to operate transparently in all aspects of its operations including environmental compliance, regulatory matters, procurement and risk management.

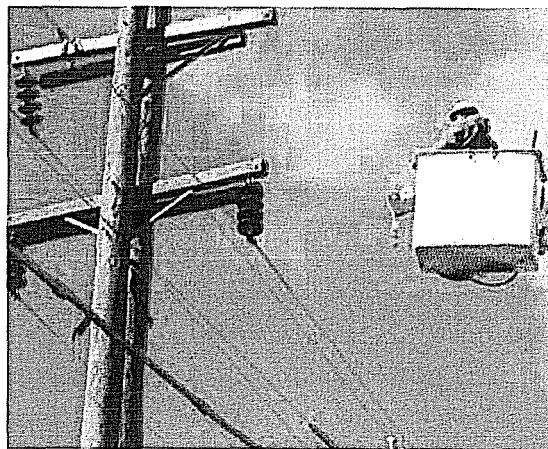
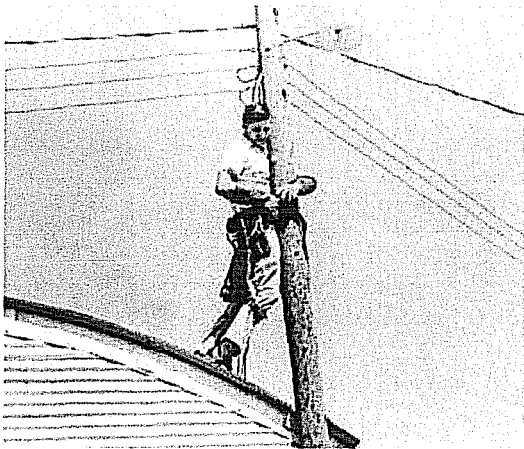
Energy production and development, and its effect on the environment, will continue to be a hot topic in the halls of Congress for quite some time. Because of new and proposed environmental regulations, compliance has been and will continue to be at the forefront of Big Rivers' generation and transmission operations.

The company currently meets all standards promulgated by the EPA. However, the impact of proposed EPA air, waste and water regulations are of major concern. Clean air transport rule, hazardous air pollutants, coal combustion residuals and water related issues are the top concerns

associated with these aggressive regulations.

Big Rivers' wholesale rates are estimated to increase 39 percent due to required pollution control equipment additions that are estimated to cost \$785 million by 2015. We further estimate, should the EPA classify coal ash as hazardous waste, that this would necessitate Big Rivers to reduce its use of approximately 3.7 million tons of Kentucky-mined coal annually.

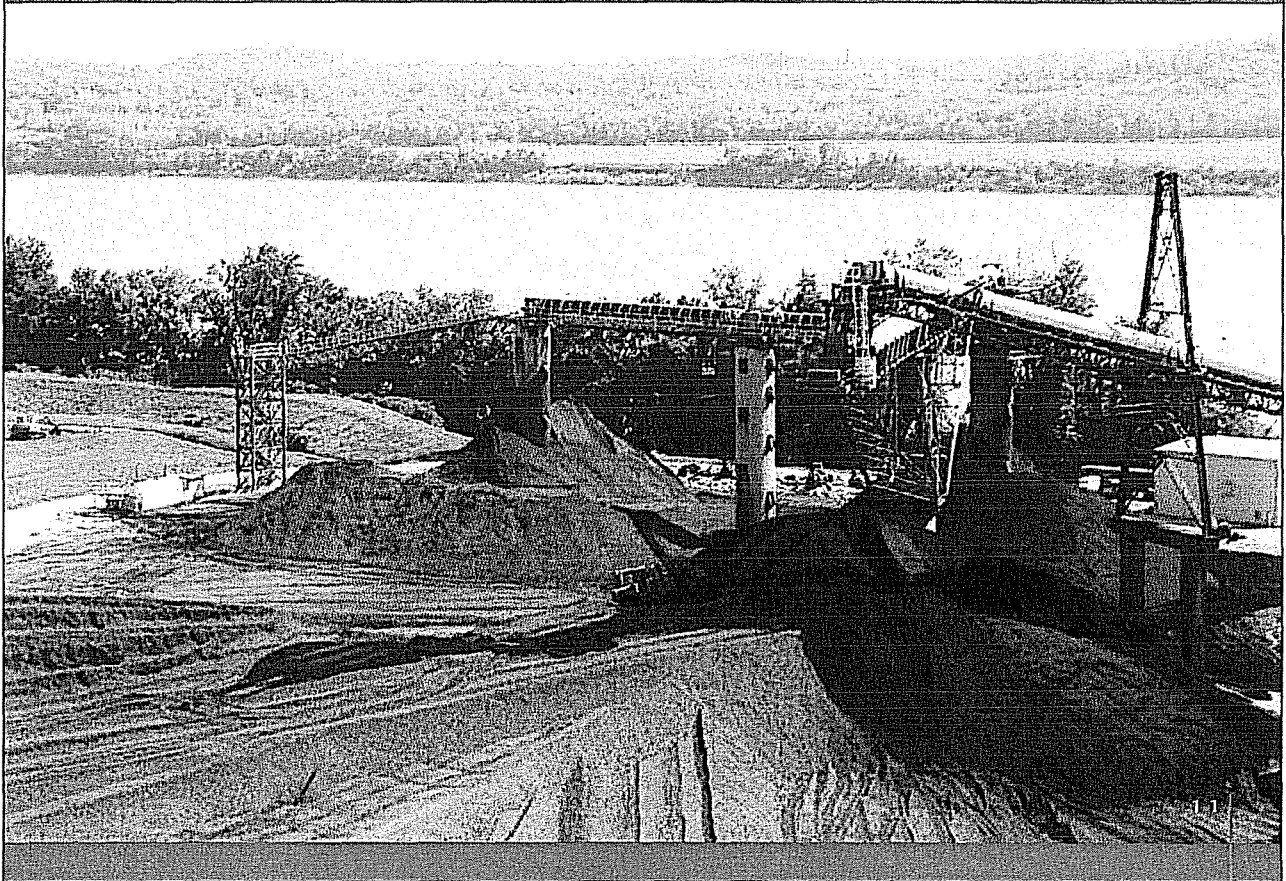
Big Rivers refinanced \$83.3 million of pollution control bonds over the past year. To do this, it was necessary for the company to have its investment-grade credit rating reaffirmed by each of the three leading agencies—Moody's Investors Service, Fitch Ratings Ltd. and Standard & Poor's.



RETOOLING FOR THE FUTURE...

Over the past year, Big Rivers acquired coal to burn in its generating stations and satisfy the company's hedge policy, which is geared towards purchasing fuel over a rolling five-year portfolio. This fuel-hedge policy is designed to lower the risk of price unpredictability in the coal markets and to help assure Big Rivers has sufficient coal supply to meet our members' electricity requirements.

In order to make sure the company stays on track, Big Rivers formed an internal risk management committee to share strategic information among departments, identify potential risks of significance to the company and then manage those risks.





EXCELLENCE

Big Rivers continued its excellent performance in its generation, transmission, and engineering services.

On the generation side, in 2010 the power stations set new, all-time performance records in reliability and efficient use of materials and equipment.

One of these records involved the Equivalent Availability Factor (EAF), the percentage of time a generating unit is available for power production. The higher the percentage, the more efficiently and productive the generating system is running. EAF in 2010 reached 93.7 percent, which shattered 1982's single-year record high of 89.9 percent. This 2010 record for unit availability beat the past 20-year average by more than 7 percent.

Another generation record set over the past year occurred in the Equivalent Forced Outage Rate (EFOR), the percentage of time a generating unit is unexpectedly off-line. In 2010, Big Rivers' EFOR was only 3.6 percent, which not only set a new all-time record low, but also was 25 percent lower than the past 15-year average. Leading the way was Big Rivers' Green Station Unit 2, which at 230 days experienced the longest continuous run for any generating unit in the company's history.

Big Rivers also surpassed standards of excellence in several other areas of generation ser-

vices. The net heat rate, which measures how efficiently the energy contained in the coal burned in our generating units is converted to electricity, greatly exceeded the company's 2010 targets, saving nearly \$3.6 million in fuel costs. As noted elsewhere in this report, several significant safety milestones were also achieved while the generating stations were operating at record performance levels.

In 2010, Big Rivers also converted Sebree Station's combustion turbine from fuel oil to natural gas to improve its reliability and reduce its air emissions and production costs.

These strides in generation services would be meaningless if Big Rivers did not deliver electricity to the member cooperatives. That's where Big Rivers' excellence in transmission comes into play. The transmission system was highly reliable in 2010. Big Rivers' system average interruption duration index (SAIDI) was a 21 percent improvement over the past 20-year average.

In an effort to continue to strengthen the transmission system's performance, a number of improvements were made in 2010. A few of those included: installing new conductor on the Coleman Station extra high voltage line, completing a re-conductor project on the Paradise tap to the Paradise transmission line, constructing a 69-kilovolt transmission line from Falls of Rough to McDaniels, relocating transmission infrastructure

**BIG RIVERS IS CONFIDENT IT WILL CONTINUE
SERVING MEMBER CO-OPS
WITH EXCELLENCE FOR YEARS TO COME.**

RETOOLING FOR THE FUTURE...



at Havana Creek from Reid Station to Hopkins County to improve transmission reliability, modifying the National Aluminum substation to provide direct service to a Kenergy customer located in Hancock County, and completing repairs on a 50 megavolt-ampere transformer that was damaged in the 2009 ice storm.

Big Rivers also made excellent strides in engineering. Efforts included the development of a long-range engineering plan in cooperation with the member cooperatives' engineering staffs. In addition, communication technicians completed an expansion of the microwave digital network that connects Big Rivers' headquarters in Henderson to each of its generating stations. Efforts were also made over the past year to replace the

Morganfield microwave radio network.

With strides made in generation, transmission and engineering, Big Rivers is confident it will continue serving our member cooperatives with reliable and low cost excellence for years to come.



SAFETY

Big Rivers reached several substantial safety milestones in 2010 including:

- ▣ Achieving its lowest Occupational Safety and Health Administration (OSHA) recordable incident rate in five years;
- ▣ Experiencing only one lost-time incident, which matched the company's best performance in its history;

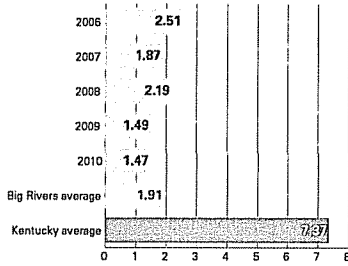
- ▣ Adding a safety component in 2010 within the Oracle R12 system that allows the company to monitor each employee's training history.

A number of individual locations also achieved safety milestones in 2010 including:

- ▣ Coleman Station employees reached four years with no lost-time incidents on January 6 and received the Governor's Safety Award

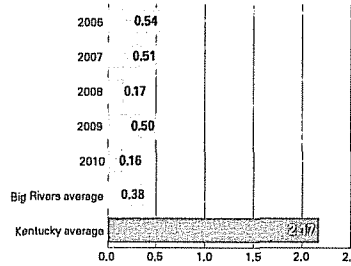
RETOOLING FOR THE FUTURE...

**OSHA RECORDABLE
INCIDENT RATE**



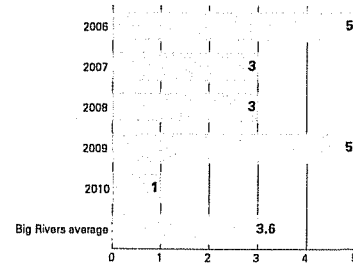
Incident Rate = # of incidents x 200,000 / # of hours worked

**LOST-TIME
INCIDENT RATE**



Incident Rate = # of incidents x 200,000 / # of hours worked

**NUMBER OF
VEHICLE INCIDENTS**



SAFETY IS THE FOUNDATION FOR ALL DECISIONS AND EXPECTATIONS OF BIG RIVERS' WORKFORCE.

for achieving over a million hours with no lost-time incidents.

- ▣ Coleman Station employees reached two years without a recordable incident on June 7.
- ▣ Sebree Station employees reached one year with no lost-time incidents on January 19.
- ▣ Sebree Station employees reached 500,000

man-hours worked without a lost-time incident in April.

- ▣ Wilson Station employees reached three years with no lost-time incidents on May 15.
- ▣ Headquarters employees reached one year with no lost-time incidents on September 29.

MEMBER AND COMMUNITY SERVICE

Promoting energy efficiency allows our member cooperatives' consumers to reduce their monthly power bills and to delay the need for additional expensive generating facilities. To help facilitate these energy-efficiency efforts, Big Rivers undertook a demand side management study in 2010 to identify efficiency opportunities for the members.

This study examined various cost-effective options to identify those projects with the most potential to succeed. A total of eight pilot projects were selected to be pursued:

- ▣ Manufactured home weatherization;
- ▣ Residential weatherization;
- ▣ HVAC and refrigeration tune up;
- ▣ Clothes washer replacement;
- ▣ Refrigerator replacement;
- ▣ LED and induction security lighting;
- ▣ Commercial high-efficiency lighting replacement; and
- ▣ Energy Star new home program.

These pilot projects include financial incentives, product evaluation, process development and marketing tests. Big Rivers and its members will

develop the successful pilot projects into full fledged energy-efficiency programs that member cooperatives can offer to their consumers.

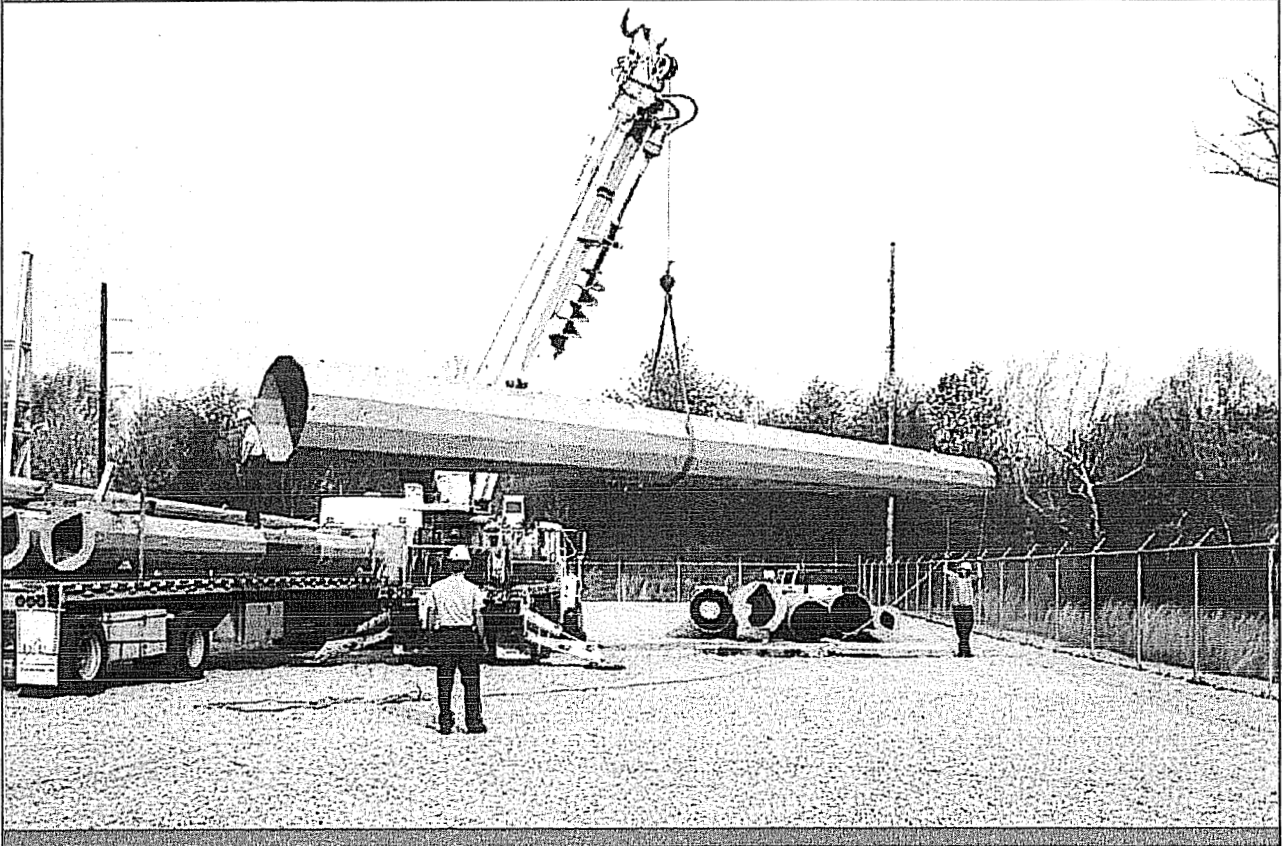
Big Rivers also continued working with its members to provide real-time outage monitoring equipment to their members. This allows the distribution cooperative consumers to report outages on the Web, which is extremely helpful in storm situations. It also allows customers to see outage locations on maps of the cooperative member system.

As a generation and transmission cooperative, Big Rivers' responsibility goes beyond simply generating and transmitting reliable electricity. The company also believes that energizing local charities is part of its mission. Big Rivers employees helped in several community fundraisers this past year, including United Way, Habitat for Humanity, March for Babies, Relay for Life and the WBKR Christmas Wish program. Additionally, Big Rivers employees served in advisory positions for chambers of commerce, regional economic development organizations, school boards, universities, Leadership Kentucky, and regional hospital boards.

Big Rivers encourages its employees to be involved in community and civic activities. Similar to previous years, United Way was the premier

PROMOTING ENERGY EFFICIENCY ALLOWS
CONSUMERS TO **REDUCE**
THEIR MONTHLY POWER BILLS.

RETOOLING FOR THE FUTURE...



non-profit organization supported by Big Rivers employees. Employees contributed \$154,000 to United Way during the 2010 employee campaign, which was a 5 percent increase over 2009 record levels. Not only did employee contributions increase, but so did employee participation levels, with nearly 79 percent of our employees doing so. These significant efforts made Big Rivers one of the largest contributors in the region to United Way for the second straight year.

For over a decade, Big Rivers has continued to support the Philippine Project, which brings electric power and the accompanying economic benefits to remote regions of the Philippine Islands. Much as was done in the United States in the

1930s, this project brings electricity to individual localities to improve village development and further energize the region. In addition, low-interest loans are provided to develop house-wiring programs and to increase local business opportunities for the people of the Philippine Islands. Big Rivers is proud to be a part of this humanitarian project that has impacted the lives of several thousand people.



ENVIRONMENTALLY CONSCIOUS

Helping wildlife is important to Big Rivers. The company has teamed up with the Kentucky Department of Fish and Wildlife Resources ("KDFWR") to install a nesting box for falcons and to improve wildlife habitat.

After months of planning, the first peregrine falcon nesting box was installed at Coleman Station in Hawesville in August. Big Rivers offered KDFWR personnel the use of a crane to secure the nesting box, which rests on the eighth floor of one of the units. KDFWR and Big Rivers hope to entice a mated pair of falcons to use this new nesting box to raise their young during the upcoming spring mating season.

The Promoting Our Wildlife & Energy Resources

(POWER) program continued its three-year test through 2010. The program works in partnership with KDFWR to improve wildlife habitat and also helps reduce right-of-way transmission line corridor maintenance costs. The POWER program offers free technical assistance and payments to landowners who complete pre-approved wildlife habitat projects in transmission line right-of-way areas. In turn, these practices reduce the need to manage vegetation.

In 2010, Big Rivers completed work to meet additional EPA spill prevention containment regulations. We embrace being good environmental stewards, which is evident by our effort to prevent pollutants from entering waterways.

RETOOLING FOR THE FUTURE...

RESPECT FOR THE EMPLOYEE

Employees are the backbone of any successful company. It is no different at Big Rivers. By keeping every employee safe, focused and motivated, we improve morale, instill employee confidence in their ability to achieve our mission and continue serving our member cooperatives with excellence.

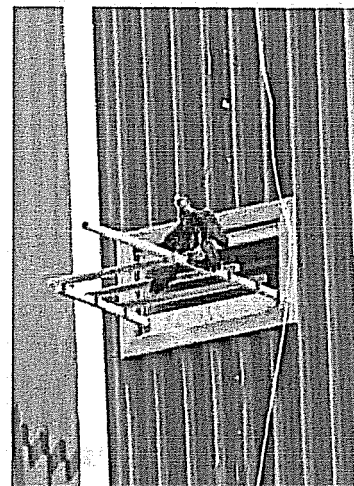
After completing the transition to incorporate operation of its generating units into its current management structure, employees began to look more closely at preparing for the future, all while keeping Big Rivers' day-to-day operations running smoothly.

To help that occur, the company is continuing to refine its succession plan. Ensuring new employees carry the same level of passion, knowledge, and work ethic that retiring employees have is a top priority. By identifying and developing talent who will succeed retiring employees, Big Rivers

will have skilled staff ready to face the challenges ahead. The company is very thankful for all the hard work its employees have done over the years.

Corporate-wide employee meetings are held on a regular basis to assist with two-way communication between front line staff and senior management. These meetings cover key topics like the company's strategic and safety plans. Keeping an open line of communication is key to making sure all employees are on the same page, while working to move Big Rivers towards a successful future.

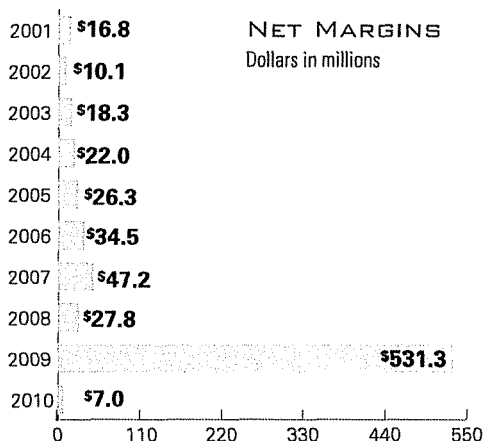
Left: Big Rivers Environmental Scientist, Samantha Howard, discussed possible sites for the nesting box with Kate Heyden, an avian biologist with KDFWR. Several factors had to be considered when choosing a location, including how much foot traffic that particular area received. Careful selection was taken to find a spot where the birds would feel at ease.



FINANCIAL REVIEW: 2010

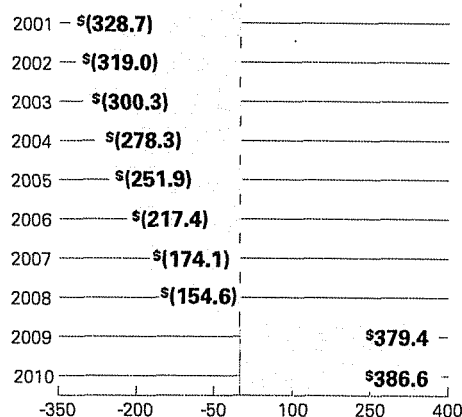
Big Rivers' mission is to provide low-cost, reliable wholesale electricity and cost-effective shared services to the member distribution cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. They, in turn, provide retail electric service to their members, totaling 112,735 at December 31, 2010.

The year 2010 marked the first complete calendar year of post-Unwind operations for Big Rivers (see Note 2 of the audited financial statements), as the E.ON lease agreements terminated July 16, 2009 at midnight, at which time Big Rivers resumed operational control of its 1,444 MW of owned generating facilities and 312 MW of Henderson Municipal Power & Light Station Two. The company also owns transmission assets, principally 1,266 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2010 was \$1,091.6 million, and total assets were \$1,472.2 million.



EQUITY (DEFICIT)

Dollars in millions



During 2010, Big Rivers continued its transformational return to a fully operating generation and transmission cooperative; its mode of operation prior to July 17, 1998, when the E.ON lease agreements became effective. Financially, 2010 was a successful year for Big Rivers, as the company completed the year with a favorable set of key financial metrics, discussed below.

Net Margins and Equities

The 2010 net margin was \$7 million, resulting in a 1.15 times interest earned ratio (TIER) and margins for interest ratio (MFIR), and a 1.47 debt service coverage ratio (DSCR). Equities to total assets were 26.26 percent at December 31, 2010, and equities to total capitalization were 32.32 percent.

While the 2009 net margin was \$531.3 million, when the one-time \$538 million Unwind gain is excluded, 2009 reflected a loss of \$6.6 million. There are three

RETOOLING FOR THE FUTURE...

items that explain the majority of the \$13.6 million net improvement in the 2010 net margin (2010 net margin of \$7 million plus 2009 net loss, as adjusted, of \$6.6 million). First, electric operating margin reflects a \$4.4 million unfavorable variance for the first full year of post-Unwind operations, principally due to a depressed market price for off-system sales, resulting from the continued weak economy. Second, interest expense and other reflects a \$16.2 million favorable variance, primarily due to a \$222.1 million reduction in long-term debt since 2008. Third, following a thorough analysis during 2010, the balance of the reserve for obsolescence that was established for certain materials and supplies inventory upon the Unwind closing was written off, resulting in a non-operating margin of \$1.9 million.

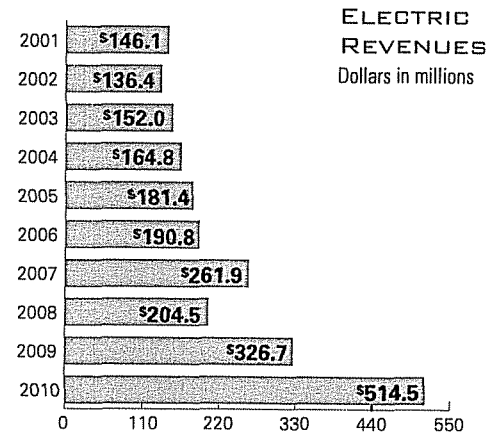
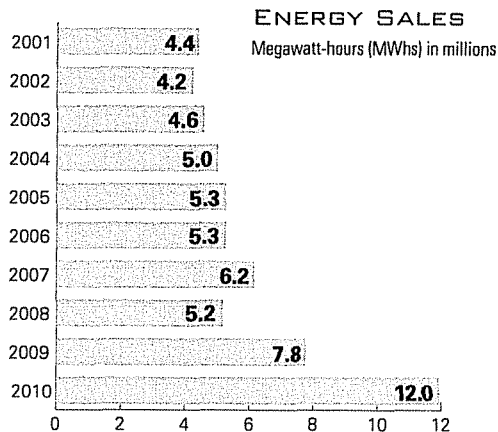
Energy Sales and Electric Revenues

Because a full year of Unwind operations is reflected, MWh sales increased to 11,969,420 MWh in 2010, up from 7,790,961 MWh in 2009, a 53.63 percent increase. The primary reason for the MWh sales

increase is the additional 2,887,541 MWh sold to the aluminum smelters, an 83.43 percent increase over 2009, reflecting a full year of post-Unwind sales to the aluminum smelters.

Non-smelter member sales increased 233,963 MWh in 2010, or 7.28 percent, mostly due to hot summer weather. Sales of surplus energy to non-members (off-system sales) increased 1,056,955 MWh in 2010, or 94.61 percent, also reflective of full year of post-Unwind operations.

Electric energy revenue increased to \$514.5 million in 2010, up from \$326.7 million in 2009.



Wholesale Revenue

Big Rivers has all-requirements wholesale power contracts with its non-smelter members through December 31, 2043. Rural member wholesale revenue per MWh was \$45.15 in 2010, versus \$41.13 in 2009. Large industrial member wholesale revenue per MWh was \$41.85 in 2010, versus \$36.55 in 2009. The 11.29 percent non-smelter member revenue per MWh increase in 2010 is primarily due to higher fuel cost recovered through the fuel adjustment clause. The aluminum smelter wholesale contracts with Kenergy Corp. terminate December 31, 2023. Aluminum smelter wholesale revenue per MWh was \$44.05 in 2010, versus \$47.54 in 2009. Big Rivers' wholesale member

tariff rates and the aluminum smelter contracts are regulated by the Kentucky Public Service Commission ("KPSC") and the Rural Utilities Service ("RUS").

Wholesale power market prices continue to be depressed, as has been the case since 2008. The revenue per MWh received by Big Rivers for its off-system sales was \$37.90 in 2010, up from \$30.91 received in 2009, but significantly below the off-system sales rate of \$48.03 received in 2007.

Lines of Credit and Letters of Credit

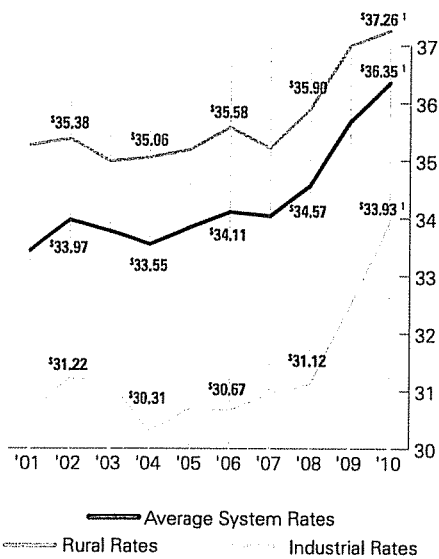
Big Rivers has two \$50 million lines of credit available to it, one with CoBank, ACB ("CoBank"), expiring July 16, 2012, and the other with National Rural Utilities Cooperative Finance Corporation ("CFC") that expires July 16, 2014. The CFC line of credit contains a \$10 million embedded letter of credit facility. At December 31, 2010, \$10 million is outstanding under the CoBank line of credit, and letters of credit totaling \$5.9 million are outstanding with CFC.

Long-Term Debt

At December 31, 2010, debt to total assets is 55.50 percent. Big Rivers significantly reduced its long-term debt by \$222.1 million over the past two years to \$817 million at December 31, 2010, down from \$1,039.1 million at December 31, 2008. The effective interest rate thereon, at December 31, 2010, is 5.70 percent. The company must refinance \$60 million of the 5.75 percent RUS Series A Note by October 1, 2012 and another \$200 million thereof by January 1, 2016. The RUS Series A Note, having a December 31, 2010 fair value of \$558.7 million and a stated value of \$561 million, has a final maturity of July 1, 2021. The non-interest bearing RUS Series B Note, having a December 31, 2010 fair value of \$116.2 million and a stated value of

WHOLESALE MEMBER RATES

Dollars per megawatt-hour (MWh)



¹ Reflects a reduction due to the Member Rate Stability Mechanism

RETOOLING FOR THE FUTURE...

\$245.5 million, has no payment due until maturity on December 31, 2023.

Big Rivers has two issues of tax-exempt pollution control bonds outstanding, totaling \$142.1 million. The larger of the two issues was refinanced June 8, 2010—the \$83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A. These Series 2010A Bonds now bear interest at a 6 percent fixed rate, with a maturity date of July 15, 2031. The second issue—the \$58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983—are variable rate demand bonds currently being held by the liquidity provider, bearing an interest rate of 3.25 percent.

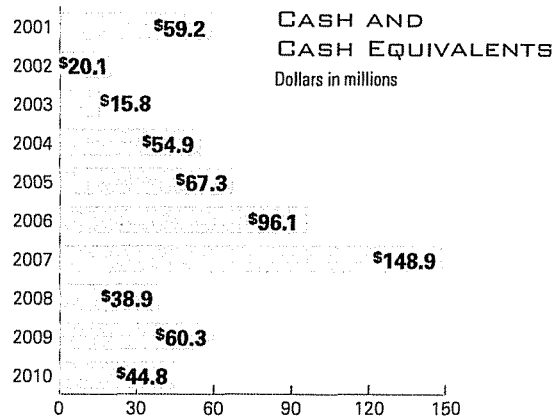
Liquidity

Liquidity is good, as cash and cash equivalents total \$44.8 million at December 31, 2010. Additionally, the company has the two lines of credit totaling \$100 million discussed earlier. Also of significance, at December 31, 2010, Big Rivers had voluntarily prepaid \$23.9 million on its 5.75 percent RUS Series A Note, which the company may claw back by avoiding future quarterly debt service payments. Big Rivers funded all of its operating expenses and capital expenditures in 2010 without any new borrowing. Capital expenditures totaled \$42.7 million in 2010, versus \$58.4 million in 2009.

Depreciation Study and Cost-of-Service Study

The March 6, 2009 order of the Kentucky Public Service Commission in the Unwind case mandated that Big Rivers file for a general review of its financial operations and wholesale member tariff rates, including a depreciation study and a cost-of-service study, by July 16, 2012. Big Rivers has not had a wholesale tariff rate increase in twenty years, and the existing depreciation study has been in effect since July 1998. Accordingly, the company filed an

application with the KPSC on March 1, 2011, seeking to increase its member wholesale tariff rates. Per the application, the member revenue increase is stated at \$29.6 million, a 6.85 percent increase in total member revenue. Big Rivers anticipates the KPSC will order the rate increase request effective as of September 1, 2011.





KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the Company) as of December 31, 2010 and the related statements of operations, equities, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Company as of December 31, 2009 and for the years ended December 31, 2009 and 2008 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 25, 2011

KPMG LLP is a Delaware limited liability partnership,
the US member firm of KPMG International Cooperative
(KPMG International), a Swiss entity.

BALANCE SHEETS

As of December 31, 2010 and 2009 — (Dollars in thousands)

| Assets | 2010 | 2009 |
|---|----------------------------|----------------------------|
| UTILITY PLANT – Net | <u>\$ 1,091,566</u> | <u>\$ 1,078,274</u> |
| RESTRICTED INVESTMENTS – Member rate mitigation | <u>217,562</u> | <u>243,225</u> |
| OTHER DEPOSITS AND INVESTMENTS – At cost | <u>5,473</u> | <u>5,342</u> |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 44,780 | 60,290 |
| Accounts receivable | 45,905 | 47,493 |
| Fuel inventory | 37,328 | 37,830 |
| Non-fuel inventory | 23,218 | 20,412 |
| Prepaid expenses | <u>2,502</u> | <u>3,233</u> |
| Total current assets | <u>153,733</u> | <u>169,258</u> |
| DEFERRED CHARGES AND OTHER | <u>3,851</u> | <u>9,384</u> |
| TOTAL | <u><u>\$ 1,472,185</u></u> | <u><u>\$ 1,505,483</u></u> |

Equities and Liabilities

| | | |
|---|----------------------------|----------------------------|
| CAPITALIZATION: | | |
| Equities | \$ 386,575 | \$ 379,392 |
| Long-term debt | <u>809,623</u> | <u>834,367</u> |
| Total capitalization | <u>1,196,198</u> | <u>1,213,759</u> |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term obligations | 7,373 | 14,185 |
| Notes payable | 10,000 | – |
| Purchased power payable | 1,516 | 3,362 |
| Accounts payable | 29,782 | 30,657 |
| Accrued expenses | 10,627 | 9,864 |
| Accrued interest | <u>11,134</u> | <u>9,097</u> |
| Total current liabilities | <u>70,432</u> | <u>67,165</u> |
| DEFERRED CREDITS AND OTHER: | | |
| Regulatory liabilities – Member rate mitigation | 185,893 | 207,348 |
| Other | <u>19,662</u> | <u>17,211</u> |
| Total deferred credits and other | <u>205,555</u> | <u>224,559</u> |
| COMMITMENTS AND CONTINGENCIES (see Note 14) | | |
| TOTAL | <u><u>\$ 1,472,185</u></u> | <u><u>\$ 1,505,483</u></u> |

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

| | 2010 | 2009 | 2008 |
|---|-----------------|-------------------|------------------|
| OPERATING REVENUE | \$ 527,324 | \$ 341,333 | \$ 214,758 |
| LEASE REVENUE | <u>—</u> | <u>32,027</u> | <u>58,423</u> |
| Total operating revenue | <u>527,324</u> | <u>373,360</u> | <u>273,181</u> |
| OPERATING EXPENSES: | | | |
| Operations: | | | |
| Fuel for electric generation | 207,749 | 80,655 | — |
| Power purchased and interchanged | 99,421 | 116,883 | 114,643 |
| Production, excluding fuel | 52,507 | 22,381 | — |
| Transmission and other | 35,273 | 35,444 | 28,600 |
| Maintenance | 46,880 | 29,820 | 4,258 |
| Depreciation and amortization | <u>34,242</u> | <u>32,485</u> | <u>31,041</u> |
| Total operating expenses | <u>476,072</u> | <u>317,668</u> | <u>178,542</u> |
| ELECTRIC OPERATING MARGIN | 51,252 | 55,692 | 94,639 |
| INTEREST EXPENSE AND OTHER: | | | |
| Interest | 46,570 | 59,898 | 65,719 |
| Interest on obligations related to long-term lease | — | — | 6,991 |
| Amortization of loss from termination of long-term lease | — | 2,172 | 811 |
| Income tax expense | 259 | 1,025 | 5,934 |
| Other – net | <u>166</u> | <u>112</u> | <u>123</u> |
| Total interest expense and other | <u>46,995</u> | <u>63,207</u> | <u>79,578</u> |
| OPERATING MARGIN | 4,257 | (7,515) | 15,061 |
| NON-OPERATING MARGIN: | | | |
| Interest income on restricted investments under long-term lease | — | — | 8,742 |
| Gain on Unwind transaction (see Note 2) | — | 537,978 | — |
| Interest income and other | <u>2,734</u> | <u>867</u> | <u>4,013</u> |
| Total non-operating margin | <u>2,734</u> | <u>538,845</u> | <u>12,755</u> |
| NET MARGIN | <u>\$ 6,991</u> | <u>\$ 531,330</u> | <u>\$ 27,816</u> |

STATEMENTS OF EQUITIES (DEFICIT)

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

| | Total Equities (Deficit) | Accumulated Margin (Deficit) | Other Equities | | Accumulated Other Comprehensive Income |
|---------------------------------|--------------------------------|------------------------------------|---------------------------------------|---|---|
| | | | Donated Capital and Memberships | Consumers' Contributions to Debt Service | |
| BALANCE – December 31, 2007 | \$ (174,137) | \$ (174,639) | \$ 764 | \$ 3,681 | \$ (3,943) |
| Comprehensive income: | | | | | |
| Net margin | 27,816 | 27,816 | - | - | - |
| Defined benefit plans | <u>(8,281)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(8,281)</u> |
| Total comprehensive income | <u>19,535</u> | <u>27,816</u> | <u>-</u> | <u>-</u> | <u>(8,281)</u> |
| BALANCE – December 31, 2008 | (154,602) | (146,823) | 764 | 3,681 | (12,224) |
| Comprehensive income: | | | | | |
| Net margin | 531,330 | 531,330 | - | - | - |
| Defined benefit plans | <u>2,664</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,664</u> |
| Total comprehensive income | <u>533,994</u> | <u>531,330</u> | <u>-</u> | <u>-</u> | <u>2,664</u> |
| BALANCE – December 31, 2009 | 379,392 | 384,507 | 764 | 3,681 | (9,560) |
| Comprehensive income: | | | | | |
| Net margin | 6,991 | 6,991 | - | - | - |
| Defined benefit plans | <u>192</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>192</u> |
| Total comprehensive income | <u>7,183</u> | <u>6,991</u> | <u>-</u> | <u>-</u> | <u>192</u> |
| BALANCE – December 31, 2010 | <u>\$ 386,575</u> | <u>\$ 391,498</u> | <u>\$ 764</u> | <u>\$ 3,681</u> | <u>\$ (9,368)</u> |

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

| | 2010 | 2009 | 2008 |
|---|-----------|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net margin | \$ 6,991 | \$ 531,330 | \$ 27,816 |
| Adjustments to reconcile net margin to net cash provided by operating activities: | | | |
| Depreciation and amortization | 37,650 | 37,084 | 34,320 |
| Increase in restricted investments under long-term lease | - | - | (2,502) |
| Decrease in deferred AMT Income Taxes | - | - | 5,035 |
| Amortization of deferred loss (gain) on sale-leaseback – net | - | 2,172 | (1,187) |
| Deferred lease revenue | - | (3,768) | (4,582) |
| Residual value payments obligation gain | - | (3,881) | (6,748) |
| Interest compounded - RUS Series B Note | 6,499 | 6,136 | 5,841 |
| Increase in obligations under long-term lease | - | - | 2,749 |
| Noncash gain on Unwind transaction | - | (269,441) | - |
| Cash received for member rate mitigation | - | 217,856 | - |
| Noncash member rate mitigation revenue | (23,953) | (12,033) | - |
| Changes in certain assets and liabilities: | | | |
| Accounts receivable | 1,588 | (26,049) | 6,218 |
| Inventories | (2,304) | (3,497) | 12 |
| Prepaid expenses | 731 | (2,783) | (319) |
| Deferred charges | 1,251 | (1,538) | 1,871 |
| Purchased power payable | (1,846) | (5,973) | (3,702) |
| Accounts payable | (875) | 24,825 | 899 |
| Accrued expenses | 2,800 | 7,881 | 327 |
| Other – net | 555 | 6,852 | (4,940) |
| Net cash provided by operating activities | 29,087 | 505,173 | 61,108 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (42,683) | (58,388) | (22,760) |
| Proceeds from disposition of investments related to sale-leaseback | - | - | 222,739 |
| Proceeds from restricted investments | 28,143 | 8,982 | - |
| Purchases of restricted investments and other deposits & investments | - | (252,798) | (401) |
| Net cash provided by (used in) investing activities | (14,540) | (302,204) | 199,578 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Principal payments on long-term obligations | (121,355) | (168,956) | (40,838) |
| Proceeds from long-term obligations | 83,300 | - | - |
| Principal payments on short-term notes payable | - | (12,380) | - |
| Proceeds from short-term notes payable | 10,000 | - | - |
| Payments upon termination of sale-leaseback | - | - | (329,859) |
| Debt issuance cost on bond refunding | (2,002) | (246) | - |
| Net cash used in financing activities | (30,057) | (181,582) | (370,697) |
| Net increase (decrease) in cash and cash equivalents | (15,510) | 21,387 | (110,011) |
| CASH AND CASH EQUIVALENTS—Beginning of year | \$ 60,290 | \$ 38,903 | \$ 148,914 |
| CASH AND CASH EQUIVALENTS—End of year | \$ 44,780 | \$ 60,290 | \$ 38,903 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid for interest | \$ 37,268 | \$ 51,078 | \$ 74,819 |
| Cash paid for income taxes | 260 | 626 | 1,220 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009 (Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information — Big Rivers Electric Corporation (“Big Rivers” or the “Company”), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the “Aluminum Smelters”). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers’ members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC’s principal assets were the restricted investments acquired in connection with the 2000 sale leaseback transaction discussed in Note 4. The sale leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 7, 2009, in conjunction with the Unwind Transaction (See Note 2).

Management evaluated subsequent events up to and including March 25, 2011, the date the financial statements were available to be issued.

(b) Principles of Consolidation — The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

(c) Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

(d) System of Accounts — Big Rivers’ maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(e) Revenue Recognition — Revenues generated from the Company’s wholesale power contracts are based on month end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, Leases, Big Rivers’ revenue from the Lease Agreement was recognized on a straight line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in Note 2).

(f) Utility Plant and Depreciation — Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of \$250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers’ weighted average debt to the accumulated expenditures for qualifying projects included in construction in progress.

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by LG&E and KU Energy LLC (formerly E.ON U.S. LLC) as utility plant to which the Company maintained title. A corresponding obligation to LG&E and KU Energy LLC (LG&E and KU) was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2010 and 2009, the Company recorded \$0 and \$5,557, respectively, for such additions in utility plant. The Company recorded \$0, \$3,881, and \$6,748 in 2010, 2009, and 2008, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, LG&E and KU waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E and KU (see Note 2) that were recorded by the Company as utility plant and lease revenue, LG&E and KU also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of \$19,679 for the Nonincremental Capital assets for which LG&E and KU had waived rights to.

LG&E and KU constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of \$98,500 in 2009.

Depreciation of utility plant in service is recorded using the straight line method over the estimated remaining service lives, as approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

| | |
|--------------------|-------------|
| Electric plant | 1.60%–2.47% |
| Transmission plant | 1.76%–3.24% |
| General plant | 1.11%–5.62% |

For 2010, 2009, and 2008, the average composite depreciation rates were 1.86%, 1.85%, and 1.85%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

- (g) Impairment Review of Long Lived Assets** — Long lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with FASB ASC 360, *Property, Plant, and Equipment* as it relates to impairment of long lived assets. FASB ASC 360 establishes one accounting model for all impaired long lived assets and long lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to operations or discontinued operations.
- (h) Inventory** — Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.
- (i) Restricted Investments** — Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).
- (j) Cash and Cash Equivalents** — Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

(k) Income Taxes — Big Rivers was formed as a tax exempt cooperative organization described in Internal Revenue Code Section 501(c)(12). To retain tax exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax exempt status and will be treated as a taxable cooperative.

As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonmember operations are taxable to Big Rivers. Big Rivers files a Federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely-than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(l) Patronage Capital — As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income.

(m) Derivatives — Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts and, therefore, the contracts are not required to be recognized at fair value in the financial statements.

(n) Fair Value Measurements — The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-Level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 — quoted prices in active markets for identical assets or liabilities
- Level 2 — observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

2. LG&E LEASE AGREEMENT

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the "Unwind Transaction" or "Unwind"). LG&E and KU, WKEC, and LEM are collectively referred to in the Notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of \$537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

| | Unwind Gain |
|--|------------------|
| Assets received: | |
| Cash | \$506,675 |
| Coleman scrubber | 98,500 |
| Inventory | 55,000 |
| Construction in progress | 23,074 |
| Utility plant assets | 19,679 |
| SO2 allowances | 980 |
| Liabilities (assumed) forgiven: | |
| Economic Reserve | (157,000) |
| Rural Economic Reserve | (60,856) |
| Post-retirement benefits liability | (8,768) |
| Residual value payments obligation | 145,251 |
| LEM Settlement Note | 15,440 |
| Recognition of (expenses) income: | |
| Deferred lease income | 7,187 |
| Deferred loss from termination of sale/leaseback | (73,829) |
| Deferred loss from LEM Marketing Payment/Settlement Note | (14,520) |
| Unwind transaction costs | (18,991) |
| Other | 156 |
| | <hr/> |
| Gain on unwind transaction | <u>\$537,978</u> |

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

On July 15, 1998 (Effective Date), a lease was consummated (Lease Agreement), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation (WKEC), a wholly owned subsidiary of LG&E and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

Big Rivers continued to operate its transmission facilities and charged LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement were as follows:

- a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.
- b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.
- c. WKEC paid Big Rivers an annual lease payment of \$30,965 over the lease term, subject to certain adjustments.
- d. On the Effective Date, Big Rivers received \$69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.
- e. Big Rivers continued to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtained the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy Corp.'s retail service for the Aluminum Smelters was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.
- f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the "Monthly Margin Payments").
- g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.
- h. Big Rivers entered into a note payable with LEM for \$19,676 (the "LEM Settlement Note") to be repaid over the term of the Lease Agreement, with an interest rate at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.
- i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of \$5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.
- j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of \$89. For the year 2011, Big Rivers was to receive a credit of \$2,611 and for the years 2012 through 2023, the Company was to receive a credit of \$4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as "Arbitrage"). Pursuant to the New RUS Promissory Note (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

3. UTILITY PLANT

At December 31, 2010 and 2009, utility plant is summarized as follows:

| | 2010 | 2009 |
|-------------------------------|--------------------------|--------------------------|
| Classified plant in service: | | |
| Production plant | \$1,689,024 | \$1,675,733 |
| Transmission plant | 237,689 | 236,639 |
| General plant | 18,937 | 18,201 |
| Other | 543 | 543 |
| | <hr/> 1,946,193 | <hr/> 1,931,116 |
| Less accumulated depreciation | <hr/> 909,501 | <hr/> 908,099 |
| | 1,036,692 | 1,023,017 |
| Construction in progress | <hr/> 54,874 | <hr/> 55,257 |
| Utility plant — net | <hr/> <u>\$1,091,566</u> | <hr/> <u>\$1,078,274</u> |

Interest capitalized for the years ended December 31, 2010, 2009, and 2008, was \$684, \$133, and \$492, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2010 and 2009, the Company had approximately \$38,000 and \$35,835, respectively, related to non-legal removal costs included in accumulated depreciation.

4. SALE-LEASEBACK

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provided Big Rivers a \$1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination

as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were \$222,739 and \$329,559, respectively, reflecting a net cash payment of \$107,120. To meet its remaining obligations Big Rivers' entered into a \$12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of \$77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction; with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, Big Rivers received \$866,676 of proceeds and incurred \$791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished \$656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased investments with an initial value of \$146,647 to fund the remaining \$135,597 of the obligations. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 6.89% on its related investments. The Company made a \$64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The \$75,050 gain was deferred and was amortized up to the date of lease termination, with the Company recognizing \$1,998 in 2008.

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the year ended December 31, 2008, were as follows:

| | 2008 |
|--|----------------|
| Power contracts revenue (revenue discount adjustment — see Note 6) | \$(2,453) |
| Interest on obligations related to long-term lease: | |
| Interest expense | \$ 8,989 |
| Amortize gain on sale-leaseback | <u>(1,998)</u> |
| Net interest on obligations related to long-term lease | <u>\$6,991</u> |
| Interest income on restricted investments under long-term lease | \$8,742 |
| Interest income and other | \$779 |

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2010 and 2009, is as follows:

| | 2010 | 2009 |
|--|------------------|------------------|
| RUS Series A Promissory Note, stated amount of, \$561,061, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021 | \$558,731 | \$596,786 |
| RUS Series B Note, stated amount of \$245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023 | 116,165 | 109,666 |
| County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031 | 83,300 | - |
| County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.56% and 10.50% in 2010 and 2009, respectively), maturing in October 2022 | - | 83,300 |
| County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.27% and 3.22% in 2010 and 2009, respectively), maturing in June 2013 | 58,800 | 58,800 |
| Total long-term debt | 816,996 | 848,552 |
| Current maturities | 7,373 | 14,185 |
| Total long-term debt — net of current maturities | <u>\$809,623</u> | <u>\$834,367</u> |

The following are scheduled maturities of long-term debt at December 31:

| Year | Amount |
|------------|------------------|
| 2011 | 7,373 |
| 2012 | 76,078 |
| 2013 | 79,275 |
| 2014 | 21,676 |
| 2015 | 22,968 |
| Thereafter | 609,626 |
| Total | <u>\$816,996</u> |

(a) **RUS Notes** — On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of \$140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) Pollution Control Bonds — In June 2010, the County of Ohio, Kentucky, issued \$83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031. Proceeds from the Series 2010A Bonds were used to refund the \$83,300, County of Ohio, Kentucky, Periodic Auction Rate Securities, Series 2001A.

The County of Ohio, Kentucky, issued \$58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

The Series 1983 bonds are supported by a liquidity facility issued by Credit Suisse First Boston, which was assigned to Dexia Credit in 2006. In addition, the Series 1983 bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

The Series 1983 are subject to a maximum interest rate of 13%. The December 31, 2010 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) LEM Settlement Note — On July 15, 1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM \$19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately \$1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of \$15,440 was forgiven.

(d) Notes Payable — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is \$100,000 consisting of \$50,000 each for CFC and CoBank. Big Rivers had \$10,000 of borrowings outstanding, at an interest rate of 2.46%, on the CoBank line of credit at December 31, 2010. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by \$5,928. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. At December 31, 2010 the Company had available to it a \$2,500 line of credit with CFC to finance storm emergency repairs and expenses related to electric utility operations with a February 25, 2011 maturity date.

(e) Covenants — Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' 2010 MFIR was 1.15 and its DSCR was 1.47.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting authority to adjust its rates for wholesale electric service.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a \$3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

The wholesale rates established for the members non-smelter large direct-served industrial customers (the "Large Industrial Rate") provide the basis for pricing the energy consumed by the Aluminum Smelters. The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per MWh determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of \$0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

7. INCOME TAXES

As a result of the sale-leaseback terminations in 2008 (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted of Net Operating Loss (NOL) Carryforwards, Alternative Minimum Tax (AMT) Credit Carryforwards, Fixed Asset Book to Tax Differences, Economic Reserve Book to Tax Differences, and RUS Series B Note Book to Tax Differences). An income statement charge of \$5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of \$900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. AMT charges were recorded in the Statement of Operations for 2010 and 2009 in the amount of \$259 and \$1,025, respectively.

At December 31, 2010, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately \$42,354 expiring at various times between 2010 and 2030, and an Alternative Minimum Tax Credit Carryforward of approximately \$6,038, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2010, 2009 and 2008, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded \$3,846, \$19,619, and \$20,363 in current regular tax expense for the years ended December 31, 2010, 2009 and 2008, respectively.

The components of the net deferred tax assets as of December 31, 2010 and 2009, were as follows:

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Deferred tax assets: | | |
| Net operating loss carryforward | \$16,730 | \$20,990 |
| Alternative minimum tax credit carryforwards | 6,038 | 7,052 |
| Member rate mitigation | 10,326 | 10,326 |
| Fixed asset basis difference | 10,752 | 11,420 |
| RUS Series B Note | 14,767 | - |
| | <hr/> | <hr/> |
| Total deferred tax assets | 58,613 | 49,788 |
| Deferred tax liabilities: | | |
| RUS Series B Note | - | (23,793) |
| Bond refunding costs | (8) | - |
| | <hr/> | <hr/> |
| Total deferred tax liabilities | (8) | (23,793) |
| Net deferred tax asset (prevaluation allowance) | 58,605 | 25,995 |
| Valuation allowance | <hr/> (58,605) <hr/> | <hr/> (25,995) <hr/> |
| Net deferred tax asset | <u>\$ -</u> | <u>\$ -</u> |

A reconciliation of the Company's effective tax rate for 2010, 2009 and 2008, follows:

| | 2010 | 2009 | 2008 |
|---|-------------|-------------|--------------|
| Federal rate | 35.0% | 35.0% | 35.0% |
| State rate — net of federal benefit | 4.5 | 4.5 | 4.5 |
| Permanent differences | 0.5 | - | - |
| Patronage allocation to members | (38.8) | (35.4) | (31.3) |
| Tax benefit of operating loss carryforwards and other | (1.2) | (4.1) | (8.2) |
| Alternative minimum tax | 3.0 | 0.2 | 18.0 |
| | <hr/> | <hr/> | <hr/> |
| Effective tax rate | <u>3.0%</u> | <u>0.2%</u> | <u>18.0%</u> |

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2006 through 2010 and 1995 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2003 through 2010 and years 2001 through 2002, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2010, 2009, or 2008.

8. POWER PURCHASED

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not reduce the contract limits by more than 12 MW in any year or by more than a total of 72 MW over the lease term. In the event Big Rivers failed to take the minimum requirement during any hour or year, Big Rivers was liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2009 and 2008, were \$51,592 and \$99,700, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

(a) **Defined Benefit Plans**— Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, *Defined Benefit Plans*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2010 and 2009.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|--|-----------------|-----------------|
| Benefit obligation — beginning of period | \$25,493 | \$24,253 |
| Service cost — benefits earned during the period | 1,289 | 1,241 |
| Interest cost on projected benefit obligation | 1,368 | 1,466 |
| Participant contributions (lump sum repayment) | – | 40 |
| Plan settlements | – | 262 |
| Benefits paid | (806) | (3,945) |
| Actuarial loss | 1,460 | 2,176 |
| | <u>\$28,804</u> | <u>\$25,493</u> |
| Benefit obligation — end of period | | |

The accumulated benefit obligation for all defined benefit pension plans was \$21,977 and \$18,630 at December 31, 2010 and 2009, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| Fair value of plan assets — beginning of period | \$22,270 | \$20,295 |
| Actual return on plan assets | 2,707 | 4,820 |
| Employer contributions | 1,096 | 1,060 |
| Participant contributions (lump sum repayment) | — | 40 |
| Benefits paid | <u>(806)</u> | <u>(3,945)</u> |
| Fair value of plan assets — end of period | <u>\$25,267</u> | <u>\$22,270</u> |

The funded status of the Company's pension plans at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Benefit obligation — end of period | \$(28,804) | \$(25,493) |
| Fair value of plan assets — end of period | <u>25,267</u> | <u>22,270</u> |
| Funded status | <u>\$ (3,537)</u> | <u>\$ (3,223)</u> |

Components of net periodic pension costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

| | 2010 | 2009 | 2008 |
|------------------------------------|----------------|----------------|----------------|
| Service cost | \$1,289 | \$1,241 | \$1,072 |
| Interest cost | 1,368 | 1,466 | 1,220 |
| Expected return on plan assets | (1,533) | (1,332) | (1,516) |
| Amortization of prior service cost | 19 | 19 | 19 |
| Amortization of actuarial loss | 584 | 834 | 247 |
| Settlement loss | — | 1,690 | — |
| Net periodic benefit cost | <u>\$1,727</u> | <u>\$3,918</u> | <u>\$1,042</u> |

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Prior service cost | \$ (40) | (59) |
| Unamortized actuarial (loss) | <u>(9,354)</u> | <u>(9,651)</u> |
| Accumulated other comprehensive income | <u>\$ (9,394)</u> | <u>\$ (9,710)</u> |

In 2011, \$19 of prior service cost and \$560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|------------------------------|---------------|-----------------|
| Prior service cost | \$ 19 | \$ 19 |
| Unamortized actuarial (loss) | 297 | 3,575 |
| | <u>\$ 316</u> | <u>\$ 3,594</u> |

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

| | 2010 | 2009 |
|----------------------------|------------------|------------------|
| Deferred credits and other | <u>\$(3,537)</u> | <u>\$(3,223)</u> |

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Discount rate — projected benefit obligation | 4.95% | 5.59% | 6.38% |
| Discount rate — net periodic benefit cost | 5.59 | 6.38 | 6.25 |
| Rates of increase in compensation levels | 4.00 | 4.00 | 4.00 |
| Expected long-term rate of return on assets | 7.25 | 7.25 | 7.25 |

The expected long term-rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement Level based on (a) forward looking rate of return expectations for passively managed asset categories over a 20-year time horizon and (b) historical rates of return for passively managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2010 and 2009, the investment allocation was 58% and 55%, respectively, in U.S. Equities, 9% and 11%, respectively, in International Equities, and 33% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi annually.

At December 31, 2010 and 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category, as required by FASB ASC 320 (see Note 1), are as follows:

| | Level 1 | Level 2 | December 31, 2010 |
|-----------------------------------|-----------------|-----------------|----------------------|
| Cash and money market | \$ 1,517 | \$ - | \$ 1,517 |
| Equity Securities: | | | |
| U.S. large-cap stocks | 9,731 | - | 9,731 |
| U.S. mid-cap stock mutual funds | 2,926 | - | 2,926 |
| U.S. small-cap stock mutual funds | 1,448 | - | 1,448 |
| International stock mutual funds | 2,194 | - | 2,194 |
| Preferred stock | 490 | - | 490 |
| Fixed: | | | |
| TIPS Bond Fund | 161 | - | 161 |
| U.S. Government Agency Bonds | - | 1,843 | 1,843 |
| Taxable U.S. Municipal Bonds | - | 2,635 | 2,635 |
| U.S. Corporate Bonds | - | 2,322 | 2,322 |
| | <u>\$18,467</u> | <u>\$6,800</u> | <u>\$25,267</u> |
| | | | |
| | Level 1 | Level 2 | December 31, 2009 |
| Cash and money market | \$ 815 | \$ - | \$ 815 |
| Equity Securities: | | | |
| U.S. large-cap stocks | 8,580 | - | 8,580 |
| U.S. mid-cap stock mutual funds | 2,064 | - | 2,064 |
| U.S. small-cap stock mutual funds | 1,282 | - | 1,282 |
| International stock mutual funds | 2,328 | - | 2,328 |
| Preferred stock | 404 | - | 404 |
| Fixed: | | | |
| U.S. Government Agency Bonds | - | 2,139 | 2,139 |
| Taxable U.S. Municipal Bonds | - | 2,282 | 2,282 |
| U.S. Corporate Bonds | - | 2,376 | 2,376 |
| | <u>\$15,473</u> | <u>\$ 6,797</u> | <u>\$22,270</u> |

Expected retiree pension benefit payments projected to be required during the years following 2010 are as follows:

| Years Ending December 31 | Amount |
|-----------------------------|-----------------|
| 2011 | \$ 1,788 |
| 2012 | 2,115 |
| 2013 | 3,939 |
| 2014 | 1,787 |
| 2015 | 3,139 |
| 2016-2020 | <u>12,017</u> |
| Total | <u>\$24,785</u> |

In 2011, the Company expects to contribute \$949 to its pension plan trusts.

(b) Defined Contribution Plans — Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax-basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was \$4,389 and \$355 for the years ended December 31, 2010 and 2009, respectively.

(c) Deferred Compensation Plan — Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2010 employer contribution was \$61 and deferred compensation expense was \$108. As of December 31, 2010, the trust asset was \$205 and the deferred liability was \$165.

10. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2010 and 2009 are as follows:

| | 2010 | | 2009 | |
|------------------------|------------------|------------------|------------------|------------------|
| | Amortized Costs | Fair Values | Amortized Costs | Fair Values |
| Cash and money market | \$ 12,812 | \$ 12,812 | \$ 25,186 | \$ 25,186 |
| Debt Securities: | | | | |
| U.S. Treasuries | 60,941 | 62,582 | 67,895 | 67,474 |
| U.S. Government Agency | 143,809 | 143,922 | 150,144 | 150,181 |
| Total | \$217,562 | \$219,316 | \$243,225 | \$242,841 |

Gross unrealized gains and losses on restricted investments at December 31, 2010 and 2009 were as follows:

| | 2010 | | 2009 | |
|------------------------|-----------------|---------------|--------------|---------------|
| | Gains | Losses | Gains | Losses |
| Cash and money market | \$ — | \$ — | \$ — | \$ — |
| Debt Securities: | | | | |
| U.S. Treasuries | 1,641 | — | 12 | 434 |
| U.S. Government Agency | 331 | 217 | 79 | 41 |
| Total | \$ 1,972 | \$ 217 | \$ 91 | \$ 475 |

Debt securities at December 31, 2010 and 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

| | 2010 | | 2009 | |
|-----------------------------------|--------------------|------------------|--------------------|------------------|
| | Amortized Costs | Fair Values | Amortized Costs | Fair Values |
| In one year or less | \$ 71,111 | \$ 71,193 | \$ 46,102 | \$ 46,112 |
| After one year through five years | 146,451 | 148,123 | 197,123 | 196,729 |
| Total | <u>\$217,562</u> | <u>\$219,316</u> | <u>\$243,225</u> | <u>\$242,841</u> |

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009, were:

| | 2010 | | 2009 | |
|------------------------|-------------------------------|------------------|-------------------------------|------------------|
| | Less Than 12 Months Losses | Fair Values | Less Than 12 Months Losses | Fair Values |
| Debt securities: | | | | |
| U.S. Treasuries | \$ - | \$ - | \$ 434 | \$ 59,872 |
| U.S. Government Agency | 217 | 15,783 | 41 | 45,026 |
| Total | <u>\$ 217</u> | <u>\$ 15,783</u> | <u>\$ 475</u> | <u>\$104,898</u> |

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2010 and 2009 was one and eight, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

11. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320 that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| Institutional money market government portfolio | <u>\$44,774</u> | <u>\$59,887</u> |

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

Big Rivers' long-term debt at December 31, 2010 consists of RUS notes totaling \$674,896, variable rate pollution control bonds in the amount of \$58,800, and fixed rate pollution control bonds in the amount of \$83,300 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2010, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled \$82,099.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to \$1,200 per year of service up to 30 years (\$1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. National Rural Electric Cooperative Association (NRECA), the provider of Big Rivers' health plan coverage through the NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Discount rate — projected benefit obligation | 4.96% | 5.78% | 6.32% |
| Discount rate — net periodic benefit cost | 5.78 | 6.32 | 5.85 |

The health care cost trend rate assumptions as of December 31, 2010 and 2009, were as follows:

| | 2010 | 2009 |
|--------------------------------|-------|-------|
| Initial trend rate | 7.60% | 7.70% |
| Ultimate trend rate | 4.50 | 4.50 |
| Year ultimate trend is reached | 2028 | 2028 |

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 2010 | 2009 |
|--|----------|----------|
| One-percentage-point decrease: | | |
| Effect on total service and interest cost components | \$ (201) | \$ (138) |
| Effect on year end benefit obligation | (1,131) | (989) |
| One-percentage-point increase: | | |
| Effect on total service and interest cost components | 236 | 162 |
| Effect on year end benefit obligation | 1,306 | 1,134 |

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|--|------------------|-----------------|
| Benefit obligation — beginning of period | \$ 13,864 | \$ 2,948 |
| Service cost — benefits earned during the period | 1,313 | 878 |
| Interest cost on projected benefit obligation | 743 | 464 |
| Transaction benefit obligation assumed in the unwind | — | 8,768 |
| Participant contributions | 85 | 48 |
| Plan amendments | — | 175 |
| Benefits paid | (313) | (203) |
| Actuarial loss | 172 | 786 |
| Benefit obligation — end of period | <u>\$ 15,864</u> | <u>\$13,864</u> |

A reconciliation of the Company's postretirement plan assets at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|---|-------------|-------------|
| Fair value of plan assets — beginning of period | \$ — | \$ — |
| Employer contributions | 228 | 155 |
| Participant contributions | 85 | 48 |
| Benefits paid | (313) | (203) |
| Fair value of plan assets — end of period | <u>\$ —</u> | <u>\$ —</u> |

The funded status of the Company's postretirement plan at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Benefit obligation — end of period | \$(15,864) | \$(13,864) |
| Fair value of plan assets — end of period | <u>—</u> | <u>—</u> |
| Funded status | <u>\$(15,864)</u> | <u>\$(13,864)</u> |

The components of net periodic postretirement benefit costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

| | 2010 | 2009 | 2008 |
|---------------------------------------|----------------|----------------|---------------|
| Service cost | \$1,313 | \$ 878 | \$ 129 |
| Interest cost | 743 | 464 | 167 |
| Amortization of prior service cost | 17 | 17 | 2 |
| Amortization of actuarial (gain) | - | (17) | (60) |
| Amortization of transition obligation | 31 | 31 | 31 |
| Net periodic benefit cost | <u>\$2,104</u> | <u>\$1,373</u> | <u>\$ 269</u> |

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|--|--------------|---------------|
| Prior service cost | \$(147) | \$(165) |
| Unamortized actuarial gain | 235 | 407 |
| Transition obligation | (62) | (92) |
| Accumulated other comprehensive income | <u>\$ 26</u> | <u>\$ 150</u> |

In 2011, \$18 of prior service cost, \$0 of actuarial gain, and \$31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

| | 2010 | 2009 |
|----------------------------|----------------|----------------|
| Prior service cost | \$ 18 | \$(157) |
| Unamortized actuarial gain | (172) | (803) |
| Transition obligation | 30 | 30 |
| Other comprehensive loss | <u>\$(124)</u> | <u>\$(930)</u> |

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

| | 2010 | 2009 |
|----------------------------|--------------------|--------------------|
| Accounts payable | \$ (600) | \$ (424) |
| Deferred credits and other | <u>(15,264)</u> | <u>(13,440)</u> |
| Net amount recognized | <u>\$ (15,864)</u> | <u>\$ (13,864)</u> |

Expected retiree benefit payments projected to be required during the years following 2010 are as follows:

| Year | Amount |
|-----------|-----------------|
| 2011 | \$ 600 |
| 2012 | 813 |
| 2013 | 995 |
| 2014 | 1,201 |
| 2015 | 1,355 |
| 2016-2020 | <u>8,685</u> |
| Total | <u>\$13,649</u> |

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is \$391 and \$375 at December 31, 2010 and 2009, respectively. The postretirement expense recorded was \$21, \$45, and \$62 for 2010, 2009, and 2008, respectively, and the benefits paid were \$5, \$78, and \$0 for 2010, 2009, and 2008, respectively.

13. RELATED PARTIES

For the years ended December 31, 2010, 2009, and 2008, Big Rivers had tariff sales to its members of \$151,001, \$125,826, and \$114,514, respectively. In addition, for the years ended December 31, 2010, 2009, and 2008, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of \$281,473, \$167,885, and \$55,124, respectively.

At December 31, 2010 and 2009, Big Rivers had accounts receivable from its members of \$36,636 and \$35,524, respectively.

Revenue and offsetting expense amounts related to Big Rivers' energy services department reservation of the Company's transmission (in accordance with its Open Access Transmission Tariff) for third party sales in 2010 and 2009, were \$12,129, and \$10,099, respectively.

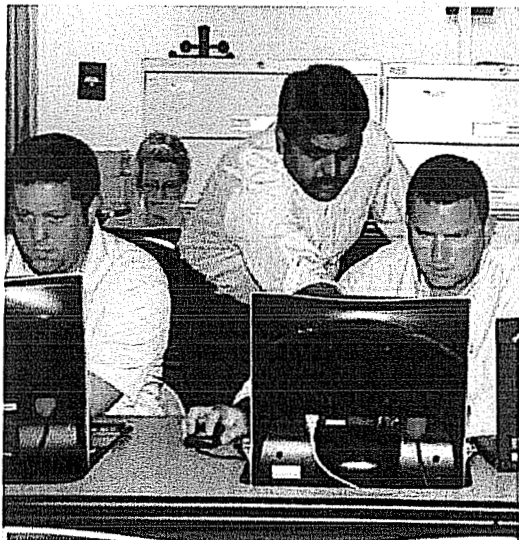
14. COMMITMENTS AND CONTINGENCIES

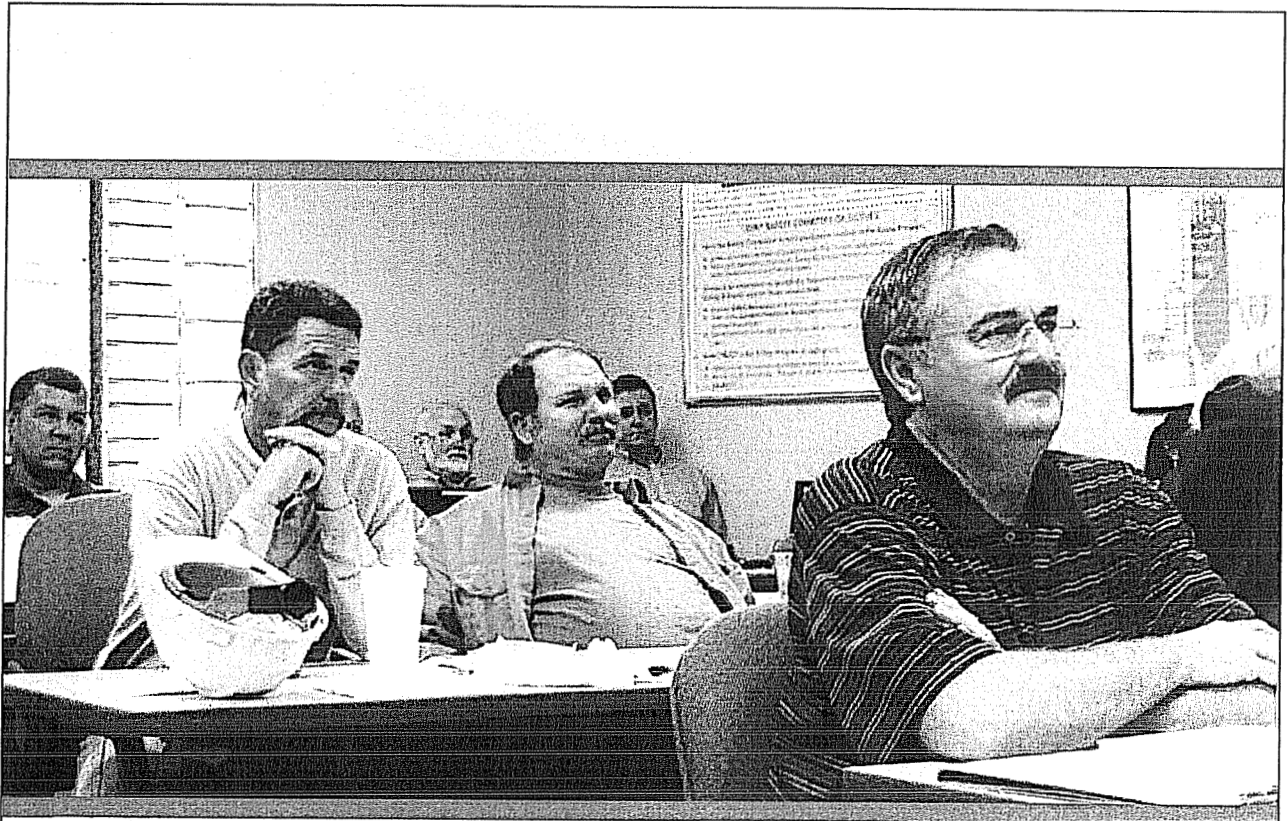
Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

□ □ □ □ □ □ □

OUR MISSION:

BIG RIVERS WILL SAFELY DELIVER
LOW COST,
RELIABLE WHOLESALE POWER
AND COST-EFFECTIVE
SHARED SERVICES
DESIRED BY THE MEMBERS.





OUR VISION:

**BIG RIVERS WILL BE VIEWED AS ONE OF THE
TOP G&Ts IN THE COUNTRY
AND WILL PROVIDE SERVICES
THE MEMBERS DESIRE
IN MEETING FUTURE CHALLENGES**

OUR VALUES:

SAFETY

INTEGRITY

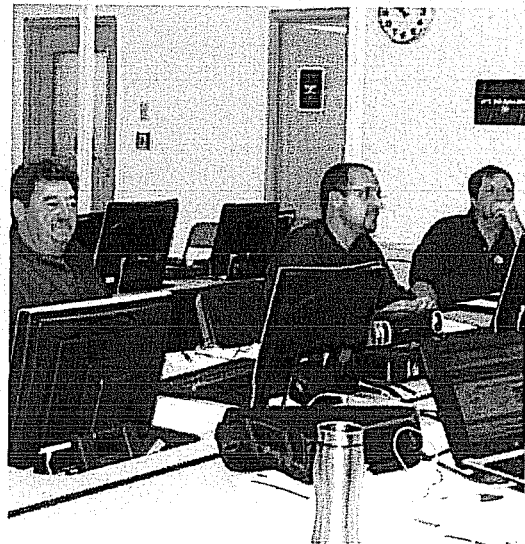
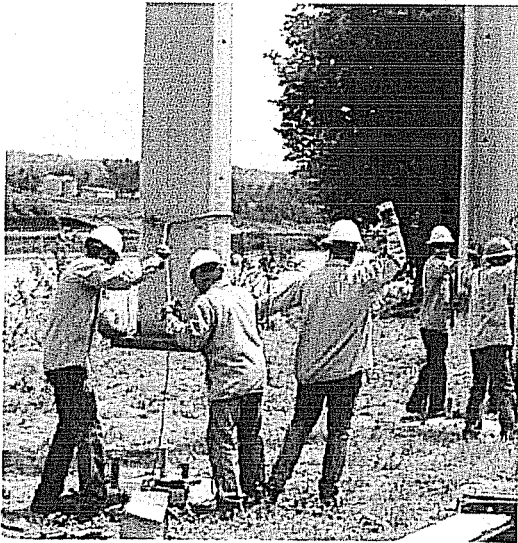
EXCELLENCE

MEMBER AND COMMUNITY SERVICE

RESPECT FOR THE EMPLOYEE

TEAMWORK

ENVIRONMENTALLY CONSCIOUS



Big Rivers
ELECTRIC CORPORATION

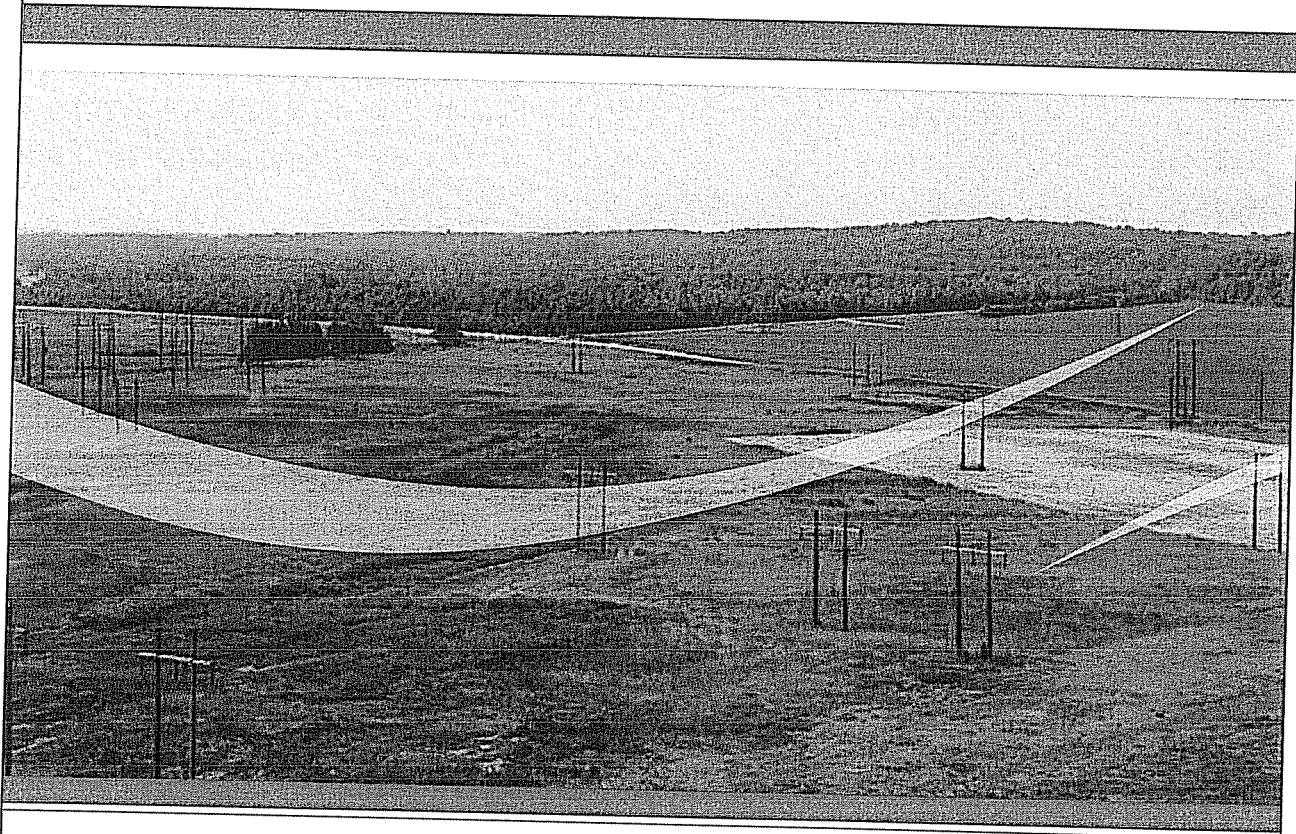
FIVE-YEAR REVIEW

Years Ended December 31 — (Dollars in thousands)

| SUMMARY OF OPERATIONS | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating Revenue: | | | | | |
| Power Contracts Revenue | \$527,324 | \$341,333 | \$214,758 | \$271,605 | \$200,692 |
| Lease Revenue | <u> </u> | <u>32,027</u> | <u>58,423</u> | <u>58,265</u> | <u>57,896</u> |
| Total Operating Revenue | 527,324 | 373,360 | 273,181 | 329,870 | 258,588 |
| Operating Expenses: | | | | | |
| Fuel for Electric Generation | 207,749 | 80,655 | — | — | — |
| Power Purchased | 99,421 | 116,883 | 114,643 | 169,768 | 114,516 |
| Operations (Excluding Fuel), Maintenance, Other | 134,660 | 87,645 | 32,858 | 31,436 | 25,336 |
| Depreciation | <u>34,242</u> | <u>32,485</u> | <u>31,041</u> | <u>30,632</u> | <u>30,408</u> |
| Total Operating Expenses | 476,072 | 317,668 | 178,542 | 231,836 | 170,260 |
| Interest Expense and Other: | | | | | |
| Interest | 46,570 | 59,898 | 72,710 | 70,851 | 70,259 |
| Other – net | <u>425</u> | <u>3,309</u> | <u>6,868</u> | <u>103</u> | <u>111</u> |
| Total Interest Expense & Other | 46,995 | 63,207 | 79,578 | 70,954 | 70,370 |
| Operating Margin | 4,257 | (7,515) | 15,061 | 27,080 | 17,958 |
| Non-Operating Margin | 2,734 | 538,845 | 12,755 | 20,097 | 16,584 |
| NET MARGIN | <u>\$6,991</u> | <u>\$531,330</u> | <u>\$27,816</u> | <u>\$47,177</u> | <u>\$34,542</u> |
| SUMMARY OF BALANCE SHEET | | | | | |
| Total Utility Plant | \$2,001,067 | \$1,986,373 | \$1,791,772 | \$1,764,924 | \$1,744,315 |
| Accumulated Depreciation | <u>909,501</u> | <u>908,099</u> | <u>879,073</u> | <u>853,290</u> | <u>826,647</u> |
| Net Utility Plant | 1,091,566 | 1,078,274 | 912,699 | 911,634 | 917,668 |
| Cash and Cash Equivalents | 44,780 | 60,290 | 38,903 | 148,914 | 96,143 |
| Reserve Account Investments ¹ | 218,955 | 244,641 | — | — | — |
| Other Assets | <u>116,884</u> | <u>122,278</u> | <u>122,834</u> | <u>253,610</u> | <u>240,578</u> |
| TOTAL ASSETS | <u>\$1,472,185</u> | <u>\$1,505,483</u> | <u>\$1,074,436</u> | <u>\$1,314,158</u> | <u>\$1,254,389</u> |
| Equities (deficit) | \$386,575 | \$ 379,392 | \$ (154,602) | \$ (174,137) | \$ (217,371) |
| Long-term Debt ² | 816,996 | 848,552 | 987,349 | 1,022,345 | 1,041,075 |
| Regulatory Liability – Member Rate Mitigation | 185,893 | 207,348 | — | — | — |
| Other Liabilities and Deferred Credits | <u>82,721</u> | <u>70,191</u> | <u>241,689</u> | <u>465,950</u> | <u>430,685</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$1,472,185</u> | <u>\$1,505,483</u> | <u>\$1,074,436</u> | <u>\$1,314,158</u> | <u>\$1,254,389</u> |
| ENERGY SALES - MWhs | | | | | |
| Member Rural | 2,481,390 | 2,239,445 | 2,386,916 | 2,406,446 | 2,231,554 |
| Member Large Industrial | 930,168 | 919,587 | 925,793 | 921,359 | 956,502 |
| Smelter Contracts | 6,348,431 | 2,885,491 | — | — | — |
| Other | <u>2,209,431</u> | <u>1,746,438</u> | <u>1,844,677</u> | <u>2,835,789</u> | <u>2,062,286</u> |
| Total Energy Sales | <u>11,969,420</u> | <u>7,790,961</u> | <u>5,157,386</u> | <u>6,163,594</u> | <u>5,250,342</u> |
| SOURCES OF ENERGY - MWhs | | | | | |
| Generated | 9,895,512 | 3,715,544 | — | — | — |
| Purchased | 2,220,994 | 4,166,916 | 5,211,789 | 6,213,682 | 5,294,138 |
| Losses and Net Interchange | <u>(147,086)</u> | <u>(91,499)</u> | <u>(54,403)</u> | <u>(50,088)</u> | <u>(43,796)</u> |
| Total Energy Available | <u>11,969,420</u> | <u>7,790,961</u> | <u>5,157,386</u> | <u>6,163,594</u> | <u>5,250,342</u> |
| NET CAPACITY - MWs | | | | | |
| Net Generating Capacity Owned | 1,444 | 1,444 | 1,459 | 1,459 | 1,459 |
| Rights to HMP&L Station Two | 207 | 212 | 217 | 217 | 217 |
| Other Net Capacity Available | 178 | 178 | 178 | 178 | 178 |

¹Includes investment income receivable.

²Includes current maturities of long-term obligations.



Big Rivers
ELECTRIC CORPORATION

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