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May 10, 2012

Federal Express

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

RECEIVED

MAY 11 2012

PUBLIC SERVICE
COMMISSION

RE: *In the Matter of: Application of Big Rivers Electric
Corporation for Approval to Issue Evidences of Indebtedness
P.S.C. Case No. 2012-00119*

Dear Mr. DeRouen:

Enclosed for filing on behalf of Big Rivers Electric Corporation are an original and ten copies of Big Rivers' responses to the Public Service Commission's Second Information Request dated May 2, 2012, and Kentucky Industrial Utility Customers, Inc.'s Second Set of Data Requests dated May 3, 2012. I certify that a copy of this letter, a copy of Big Rivers' responses to the Commission Staff's Second Information Request and the KIUC's Second Set of Data Requests, have been served on each of the persons shown on the attached service list.

Sincerely,



Tyson Kamuf

TAK/ej
Enclosures

cc: Mark A. Hite
Albert Yockey

SERVICE LIST
BIG RIVERS ELECTRIC CORPORATION
PSC CASE NO. 2012-00119

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street
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Cincinnati, OH 45202

**Counsel for Kentucky Industrial
Utility Customers, Inc.**

BIG RIVERS ELECTRIC CORPORATION

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00119**

VERIFICATION

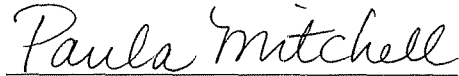
I, Mark A. Hite, verify, state, and affirm that I prepared or supervised the preparation of the data responses filed with this Verification, and that those data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Mark A. Hite

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Mark A. Hite on this the 9th day of
May, 2012.



Notary Public, Ky. State at Large
My Commission Expires 1-12-13

ORIGINAL



Your Touchstone Energy® Cooperative 

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC)	Case No. 2012-00119
CORPORATION FOR APPROVAL TO ISSUE)	
EVIDENCES OF INDEBTEDNESS)	

**Response to Commission Staff's
Second Request for Information
Dated May 2, 2012**

FILED: May 11, 2012

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00119**

**Response to Commission Staff's
Second Request for Information
Dated May 2, 2012**

May 11, 2012

1 **Item 1)** *Refer to Big Rivers' response to Item 3.b. of Commission Staff's*
2 *First Information Request ("Staff's First Request") which states that "Big*
3 *Rivers generally uses 5.75% as a discount rate when evaluating economic*
4 *options involving cash because that has historically been Big Rivers'*
5 *opportunity cost given that Big Rivers has the option to use excess cash to*
6 *prepay the RUS Series A Note." Also, refer to Big Rivers' response to Items*
7 *24.a. and b. of Kentucky Industrial Utility Customers, Inc.'s ("KIUC") First*
8 *Set of Data Requests ("KIUC's First Request"). The response to Item 24.a.*
9 *shows the imputed interest rate on the 5.75 percent RUS Series A Note at*
10 *December 31, 2010 was 5.84 percent and at December 31, 2011 was 5.85*
11 *percent. The response to Item 24.b. shows that, for 2012, the imputed*
12 *interest rate is expected to be 5.85 percent. Explain why Big Rivers would*
13 *not use 5.84 or 5.85 percent as its discount rate when evaluating economic*
14 *options involving cash.*

15

16 **Response)** Big Rivers used the RUS Series A Note stated interest rate of 5.75%
17 to evaluate the proposed borrowing because the analysis was performed on a net
18 present value cash flow basis. The 5.75% stated interest rate reflects Big Rivers'
19 true opportunity cost of cash while the 5.85% imputed interest rate is for financial
20 reporting purposes in accordance with the RUS Uniform System of Accounts and
21 GAAP accounting standards.

22 If Big Rivers were to use the higher 5.85% imputed interest rate as
23 the discount rate in this evaluation, the result would be an even higher net
24 present value benefit. Table A contained in Hite Direct Exhibit E shows a net

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1 present value of \$28,559,298 for the proposed RUS Series A Note refinancing
2 amount of \$442,000,000 using a discount rate of 5.75%. If a discount rate of 5.85%
3 were used, the net present value would be \$30,458,413.

4

5

6 **Witness)** Mark A. Hite

7

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May 11, 2012

1 **Item 2)** *Refer to Big Rivers' response to Item 4 of Staff's First Request*
2 *which states that "[t]he total increase in Big Rivers' liabilities as of the*
3 *closing will be \$139,381,389." Also, refer to Big Rivers' response to Item 21*
4 *of KIUC's First Request which states that "the long-term debt outstanding*
5 *only increases \$138,155.800."*

6
7 *a. State which of the two amounts is the increased liability*
8 *amount.*

9 *b. The difference between these two amounts, \$1,225,589, is*
10 *labeled as "RUS Series A Note Difference (GAAP vs.*
11 *Stated)" in the response to Item 4 of Staff's First Request.*
12 *Explain what is meant by this statement and provide the*
13 *calculation for the \$1,225,589.*

14
15 **Response)**

- 16 a. The increased liability amount is \$139,381,389. (Big Rivers'
17 response to Item 21 of KIUC's First Request stating that long-
18 term debt will increase \$138,155,800 was referring to the stated
19 amount of the long-term debt. The stated amount of debt would
20 be used in calculating Big Rivers Balance of Bondable additions, a
21 measure of Big Rivers' capacity to secure new debt under its
22 indenture.)
- 23 b. The statement refers to the fact that GAAP and RUS reporting
24 require Big Rivers to use an "imputed" or "effective" rate of

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1 interest for the RUS Series A Note. This rate differs by definition
2 from the "stated" interest rate, as explained below.

3 At the consummation of Big Rivers' bankruptcy plan of
4 reorganization on July 17, 1998, Big Rivers issued a note to the
5 RUS (the "1998 RUS Note") in the amount of \$1,022,583,000,
6 bearing a stated interest rate of 5.75%. In accordance with
7 Statement of Position (SOP) 90-7, "Financial Reporting by
8 Entities in Reorganization Under the Bankruptcy Code," Big
9 Rivers was required to record its liabilities at "fair value." To
10 determine and record the fair value of Big Rivers' liabilities, Big
11 Rivers was required to record its long-term debt by applying a
12 discount rate commensurate with the market rate to the future
13 debt service payments under the 1998 RUS Note, regardless of
14 the stated principal and coupon rates of the obligation. At that
15 time, Big Rivers determined that the market rate associated with
16 the 1998 RUS Note was 5.81%. In accordance with GAAP, this
17 rate must be used for financial statement purposes (oftentimes
18 referred to as the "imputed" interest rate or the "effective" interest
19 rate).

20 The cash flows associated with the note at the stated rate
21 (the "Stated Note") must equal the cash flows associated with the
22 note at the imputed or effective rate (the "GAAP Note"). The
23 \$6,302,501 initial principal balance difference – i.e. the excess of
24 the Stated Note vs. the GAAP Note -- results in the GAAP Note

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1 recording \$6,302,501 more interest and \$6,302,501 less principal
2 over the life of the 1998 RUS Note than the Stated Note. Again,
3 identical cash flows, both in amount and timing, retire both notes
4 at the same point in time; the difference here simply reflects the
5 manner in which the principal and interest balances are reported
6 over the life of the 1998 RUS Note in order to adhere to GAAP
7 accounting requirements.

8 As noted above, the 1998 stated interest rate on the 1998
9 RUS Note was 5.75%, which translated at that time to an interest
10 rate of 5.81% on the GAAP Note in accordance with the "fair value
11 requirements" of GAAP. Over the years Big Rivers has prepaid
12 and "clawed back" principal on the 1998 RUS Note and its
13 successor, the current RUS Series A Note. Principal on the RUS
14 Series A Note is currently prepaid by \$35 million, as has been
15 discussed in the financing application and several other data
16 request responses. Prepayment of principal on the Stated Note
17 upsets the equilibrium in the cash flow (debt service) between the
18 Stated Note and the GAAP Note, so GAAP requires that the
19 interest rate on the GAAP Note be increased to bring those cash
20 flows back into equilibrium. Accordingly, and as a result of that
21 accounting adjustment, the interest rate on the GAAP Note as of
22 December 31, 2011, was 5.85%, as discussed in Big Rivers'
23 response to the KIUC First Request Item 24a.

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1 Another way to view this is to consider the stated and
2 GAAP values of the note. Under the proposed financing, Big
3 Rivers' liabilities will increase \$139,381,389 for financial
4 reporting purposes (GAAP). Big Rivers will use \$442 million of
5 the borrowed funds to pay down the RUS Series A Note. The
6 stated value of the note will decrease \$442 million while the
7 GAAP value of the note will only decrease \$440,774,441. The
8 difference, \$1,225,589, will be placed in account 189, Unamortized
9 Loss on Reacquired Debt, and amortized in equal monthly
10 amounts over the life of the new debt, 20 years. Please see the
11 electronic version of Exhibit I provided in the response to Item 14
12 of Staff's First Request for Information on the RUS Series A Note
13 amortization schedule.

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15
16
17

Witness) Mark A. Hite

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1 **Item 3)** *Refer to Big Rivers' response to Item 6 of Staff's First Request.*
2 *The response to Item 6.e. states that "[t]he decrease in annualized all-in*
3 *interest expense is \$1,421,349." The response goes on to state that the*
4 *reduction in interest expense does not reflect the increase in the*
5 *amortization of the \$1,225,589 loss associated with the refinancing.*
6 *Provide a schedule showing the amortization period and the annual*
7 *amount of the amortization expense associated with the loss on the*
8 *refinancing.*

9
10 **Response)** As stated in the response to Item 6.e. of Staff's First Request for
11 Information, the all-in effective interest rate does not include the straight line
12 amortization of the refinancing loss associated with the RUS and GAAP
13 accounting for the RUS Series A Note, nor the cost of Big Rivers' counsel. The
14 refinancing loss of \$1,225,589 will be amortized over the life of the new financing –
15 20 years, as shown in the table on the following page.

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1

<u>Period</u>	<u>Amortization of Refinancing Loss</u>
1	(61,279)
2	(61,279)
3	(61,279)
4	(61,279)
5	(61,279)
6	(61,279)
7	(61,279)
8	(61,279)
9	(61,279)
10	(61,279)
11	(61,279)
12	(61,279)
13	(61,279)
14	(61,279)
15	(61,279)
16	(61,279)
17	(61,279)
18	(61,279)
19	(61,279)
20	(61,288)
	<u>(1,225,589)</u>

2

3

4 **Witness)** Mark A. Hite

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1 **Item 4)** *Confirm that Big Rivers is requesting authority to borrow*
2 *\$235,000,000 from CoBank and \$345,155,800 (\$302,000,000 + \$43,155,800)*
3 *from the National Rural Utilities Cooperative Finance Corporation for a*
4 *total borrowing of \$580,155,800, which will result in a reduction in annual*
5 *interest expense of \$1,421,349¹ compared to current outstanding long-term*
6 *debt.*

7

8 **Response)** The foregoing restatement of Big Rivers' request for relief is accurate
9 with respect to the proposed CFC and CoBank term loans.

10

11

12 **Witness)** Mark A. Hite

13

¹ See response to Staff 's First Request, Item 6. e.