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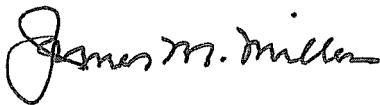
Jeff DeRouen
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: *In the Matter of: The Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness, PSC Case No. 2012-00492*

Dear Mr. DeRouen:

Enclosed for filing on behalf of Big Rivers Electric Corporation ("Big Rivers") are an original and ten copies of Big Rivers' responses to the information requests at the hearing in this matter on February 28, 2013. I certify that on this date a copy of this cover letter and responses were served on each of the persons on the attached service list by either federal express or by first class mail, postage prepaid.

Sincerely yours,



James M. Miller

JMM/ej
Enclosures

cc: Billie J. Richert

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BIG RIVERS ELECTRIC CORPORATION

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00492**

**Response to Data Requests from Hearing
on February 28, 2013**

March 5, 2013

Item 1) File a revised version of the edited January 24, 2013 KPMG memorandum (Attorney General Exhibit 1) that reflects the corrections that Ms. Richert verbally gave KPMG.

Response)

Attached is a revised version of the edited January 24, 2013 KPMG memorandum (Attorney General Exhibit 1) that reflects the corrections that Ms. Richert has verbally given KPMG and testified about at the hearing in this matter on February 28, 2013.

Witness) Billie J. Richert

Client	Period-end
Big Rivers Electric Corporation	12/31/12

Prepared by	Date	W/P reference
Kevin Lyons with comments/revisions by Big Rivers (noted in red)	1/24/2013	

Purpose:

The purpose of this memorandum is to document our considerations on Big River Electric Corporations ability to continue as a going concern as discussed in AICPA Auditing Standard AU Section 341.

Background:

Big Rivers Electric Corporation ("Big Rivers" or the "Company") is an electric generation and transmission cooperative based out of Henderson, Kentucky that owns generating capacity of approximately 1,444 megawatts (MW) in four substantially coal-fired plants and has rights to an additional 197 MW of coal-fired and 178 MW of contracted hydro capacity. The power generated by Big Rivers is distributed to its three member distributive cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Corporation) under all requirements contracts. Additionally, the power needs (approximately 60% of Big Rivers' generation) of two large industrial customers in the aluminum smelter industry are supplied under separate arrangements with one of the cooperative members. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale rates (inclusive of the aluminum smelters) to Big Rivers' members are regulated by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS), respectfully the Company's state and federal regulators.

Procedures:

Per KAM 27.0580 KPMG must perform the following procedures concerning the entity's ability to continue operations:

- identify events and conditions that may cast substantial doubt on the entity's ability to continue as a going concern for a reasonable period of time by performing risk assessment procedures and by remaining alert throughout the audit
- perform additional audit procedures when events or conditions that may cast substantial doubt on the entity's ability to continue as a going concern are identified and we believe there is substantial doubt
- conclude and consider the implications for the auditors' report regarding the entity's ability to continue as a going concern
- Communicate with those charged with governance

Results:

In consideration of the procedures noted above, KPMG noted the following:

- o **Century's Notice to Terminate:** On August 20, 2012 Century Aluminum (substantial customer) served Big Rivers with a 12 month notice of intent to terminate its power contract. Century Aluminum Co. is a smelter plant in Hawesville, KY that is seeking rate concessions from Big Rivers

due to the declining prices for aluminum and concerns over their ability to operate the facility under the current contractual electrical rates set between Century and Big Rivers. The impact of this notice and potential consequences if Century were to terminate its power contract from a liquidity perspective are as follows:

- \$50 million CoBank, ACB (CoBank) line of credit: Under the terms of this line of credit agreement, upon a smelter's notification to terminate its power contract, the Company no longer has the ability to make draws on this line of credit. As such, as result of Century's notice, the Company no longer has access to this \$50 million line of credit. The company is currently in discussions with CoBank to modify this term, but as of this point in time the terms have not been modified.
- \$50 million National Rural Utilities Cooperative Finance Corporation (CFC) line of credit: Under the terms of this line of credit agreement, upon the termination of a smelter's power contract, the Company no longer has the ability to make draws on this line of credit. As such, assuming Century will terminate its power contract, beginning August 20, 2013 the Company will no longer have access to this \$50 million line of credit. In consideration of the Company's liquidity position and ability to continue as a going concern, the assumption should be made that the Company will not have access to this line of credit in 2013. The company is currently in discussions with CoBank to modify this term, but as of this point in time the terms have not been modified.
- We take exception to the above 'assumption should be made that the Company will not have access to this line of credit in 2013', as Big Rivers currently has access to this line of credit until August 20, 2013; and CFC is presenting a negotiated Term Sheet with revised terms to their Credit Committee for approval on Thursday, February 21, as described below. Also, CFC has indicated their commitment to pursue the three-year interim secured facility for our Environmental Compliance Plan CAPEX for \$60 million and is providing Big Rivers with a Term Sheet on Friday, February 22.
- On February 15, 2013, Big Rivers received a Term Sheet from CFC to extend the maturity date to July 16, 2017 and to remove any reference to the termination of smelter retail agreements. Additionally, the following proposed terms are included in the term sheet:
- The Revolving Credit Facility (Line of Credit) will become secured under the Indenture.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- We are seeking Board approval during the February 27th board meeting to complete negotiations of the necessary documents and obtain the necessary approvals to pursue these modifications.

- This will require PSC approval. Big Rivers anticipates filing the financing application by the end of February. Typically it takes ninety (90) days for the Commission to issue an order in a Financing Case.
- **Series 1983 Bonds Maturity:** On June 1, 2013, the \$58.8 million of Series 1983 Pollution Control Bonds mature. The Company has considered its ability to issue new pollution control bonds and utilize those proceeds to pay the maturing bonds, but based on discussions with their advisors, current economic conditions and company circumstances indicate that the Company may not be able issue new bonds and therefore the \$58.8 million in its entirety will be due on June 1, 2013.
- **Big Rivers has a Financing Case before the Commission (Case No. 2012-00492)** which requests the ability to utilize the remaining proceeds from the CoBank July 2012 refinancing, a total of \$60 million which was designated for capital expenditures by the Commission in Case No. 2012-00119 to pay off the Series 1983 Bonds prior to or on the maturity date of June 1, 2013. Big Rivers is also asking in Case No. 2012-00492, to use the \$35 million Transition Reserve for capital expenditures in the ordinary course of business. The \$35 million Transition Reserve was established as an emergency fund for Big Rivers to access should one or both smelters close, unless authorized by the Commission to use the funds for another purpose.
- For the period August 2012 through January 2013, Big Rivers has spent approximately \$20 million for capital expenditures. This was noted in our response to Item 3) to the supplemental data request filed by Alcan Primary Products Corporation in Case No. 2012-00492. So, for practical purposes, there remains approximately \$40 million from the initial \$60 million proceeds from the July 2012 refinancing with CoBank.
- **2013 Projections:** KPMG obtained the Company's fiscal 2013 projection and based on those projections, the Company is projecting other cash from operations and significant cash outflows as follows:

Cash from operations:	\$25.1 million ok
Net proceeds from restricted investments (Economic Reserve)	\$26.7 million
Capital Expenditures:	\$79.1 million
Net Principal Payment on Debt Obligations:	\$10.2 million this is a net inflow not a net outflow and therefore is added to Cash

Note: The net principal payments on debt obligations does not take into consideration the \$58.8M Series 1983 Bonds Maturity.

As such, taking into consideration the information above, cash activity for 2013 would be as follows:

Projected: Cash from Operations	25.1
Plus: Net Proceeds from Economic Reserve	26.7
Maturity of Pollution Control Bonds	(58.8)
Projected: Capital Expenditures	(79.1)
Projected: Net inflow proceeds less payments on debt obligations	10.2
Final Order on Case No 2011-00036 – retro amount – see attached	1.4
Final Order on Case No 2011-00036 – Jan-Aug 2013 – see attached	.7
Interest Expense Savings from paying off bonds rather than refinancing	2.4
Issuance Cost Savings from paying off bonds rather than refinancing	1.4
Projected: 2013 Cash Outflows	<u>(70.0)</u>
	(71.4)

In consideration of the above, the Company would need approximately \$70.0 million of available cash as of December 31, 2012 to cover the projected 2013 cash outflows.

- o **2012 Available Cash and Liquidity Position:** As of December 31, 2012, the Company had approximately \$110.1 million in cash and cash equivalents. KPMG notes that of this \$110.1million, \$40.0 million is restricted for capital expenditures and the Company requires approval from (note: approval is not required from CoBank) the Kentucky Public Service Commission (the commission) prior to utilizing this \$40.0 million to pay the maturing pollution control bonds. Assuming they are able to either obtain this approval (or reduce the \$79.1million in CAPEX by \$40.0 million accordingly) and considering project capital expenditures for 2013 are projected to be \$79.1 million, it can be assumed that this \$110.1 million in its entirety would be available to the Company for 2013 projected cash outflows. In consideration of this, an updated analysis of 2013 cash outflows would be as follows:

Cash and cash equivalents as of 12/31/2012	110.1
Projected: Cash from Operations (include Economic Reserve proceeds of \$26.7)	51.8
Maturity of Pollution Control Bonds	(58.8)
Projected: Capital Expenditures	(79.1)
Projected: Net inflow proceeds less payments on debt obligations	10.2
Final Order on Case No 2011-00036 – retro amount – see attached	1.4
Final Order on Case No 2011-00036 – Jan-Aug 2013 – see attached	.7
Interest Expense Savings from paying off bonds rather than refinancing	2.4
Issuance Cost Savings from paying off bonds rather than refinancing	1.4
Projected: Cash and cash equivalents as of 12/31/2013 – as revised	40.1 38.7

Under these assumptions, the Company would have Cash and Cash Equivalents balance as of 12/31/2013 of approximately \$38.7 million.

However, in addition to the \$110.1 million of cash and cash equivalents on hand as of 12/31/2012, there is also approximately \$35.0 million in the transition reserve. The transition reserve was established as a way for the Company to have money set aside in case either one of the smelters extinguished their contracts with Big Rivers. The Company has the ability to liquidate this reserve pending commission approval. However, since commission approval is pending, there is no guarantee that they will receive this approval and therefore we cannot assume the Company will have access to these funds in considering the Company's going concern and liquidity position.

It is Big Rivers expectations that the Commission will rule in this financing case in March 2013. Therefore, if we add the \$35 million to the above cash balance at 12/31/2013, we will have an projected ending cash balance of (\$35m + \$38.7m) or \$73.7 million. Regardless, the \$38.7m projected 12/31/2013 cash balance is sufficient to meet Big Rivers' operating cash needs.

Conclusion:

TBD

A lack of resolution would mean there could be a "going concern" issue.

Discussion points:

- **Confirm understanding of facts – See above revisions**
- **What steps can be taken?**
 - o **Additional capex reductions? Discussion.**
 - o **Accelerate approvals on lines of credit or \$60 million? Presently working on this.**
 - o **Permission to use transition reserve? Commission order anticipated in March 2013.**
 - o **Get permission to delay issuance of financial statements? Audited financial statements are due to our creditors no later than 120 days after yearend.**

BIG RIVERS ELECTRIC CORPORATION

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FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00492**

**Response to Data Requests from Hearing
on February 28, 2013**

March 5, 2013

Item 2) File a copy of the corrective plan that Big Rivers is preparing and will provide to the rural utilities Service (“RUS”) pursuant to the terms of the RUS Loan Contract.

Response)

Big Rivers has not yet completed and filed the corrective plan with the RUS, but will file a copy in this case when the plan is completed and transmitted to the RUS.

Witness) Billie J. Richert

BIG RIVERS ELECTRIC CORPORATION

**APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
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CASE NO. 2012-00492**

**Response to Data Requests from Hearing
on February 28, 2013**

March 5, 2013

- 1 **Item 3)** *Refer to Big Rivers' response to KIUC 1-7, page 3-20.*
2 *a. Identify the types of investments in which the Economic Reserve*
3 *and Rural Economic Reserve funds are being held, and the amounts*
4 *being held in each investment.*
5 *b. Will Big Rivers incur any penalties for withdrawing any funds*
6 *from any of those investments prior to maturity?*

7

8 **Response)**

- 9 a. The schedules attached identify the types of investments in which the
10 Economic Reserve and Rural Economic Reserve funds are being held, and
11 the amounts held in each investment.
12
13 b. The Economic Reserve and Rural Economic Reserve funds are drawn
14 upon to offset the effect of billing the FAC (fuel adjustment clause) and
15 Environmental Surcharge costs billed to the Members, as defined in the
16 MRS (Member Rate Stability Mechanism) and RER (Rural Economic
17 Reserve Rider) sections of Big Rivers' tariff. Based upon current forecasts,
18 Big Rivers will not need to withdraw funds from any of the investments
19 identified in this response prior to maturity to fund the requirements of the
20 MRS and RER. There is no established penalty imposed by the financial
21 institution through which these investments were transacted for
22 withdrawing funds prior to maturity. However, these investments would be
23 subject to the gains or losses provided by the market (at the time) if the
24 funds are withdrawn prior to maturity.

25

BIG RIVERS ELECTRIC CORPORATION

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CASE NO. 2012-00492**

**Response to Data Requests from Hearing
on February 28, 2013**

March 5, 2013

1

2

3 **Witness)** Billie J. Richert

4

5

Big Rivers Electric Corporation
Case No. 2012-00492

Attachment to Response for Hearing Item 3
Economic Reserve Fund

Investments as of December 31, 2012

Description	Coupon Rate	Due Date	Market Value
<u>Government & Agency Bonds:</u>			
Fedl Home Loan Bank Bond	1.500%	01/16/13	11,005,940.00
Fedl Home Loan Mtg Corp Medium Term Note	0.625%	12/23/13	9,036,360.00
Fedl Farm Credit Bank Bond	0.330%	02/03/14	16,000,320.00
Fedl Farm Credit Bank Bond	0.350%	05/02/14	15,000,300.00
Fedl Farm Credit Bank Bond	0.400%	08/07/14	16,000,320.00
Fedl Farm Credit Bank Bond	0.480%	12/26/14	<u>13,000,390.00</u>
Total Government & Agency Bonds			80,043,630.00
Money Market Fund			<u>486,253.23</u>
Total Economic Reserve Funds Invested			<u><u>80,529,883.23</u></u>

Big Rivers Electric Corporation
Case No. 2012-00492

Attachment to Response for Hearing Item 3
Rural Economic Reserve Fund

Investments as of December 31, 2012

Description	Coupon Rate	Due Date	Market Value
<u>U. S. Treasury Notes:</u>			
U S Treasury Note	3.375%	07/31/13	29,540,270.00
U S Treasury Note	1.750%	01/31/14	<u>34,556,953.20</u>
Total U. S. Treasury Notes			64,097,223.20
Money Market Fund			<u>794,769.10</u>
Total Rural Economic Reserve Funds Invested			<u><u>64,891,992.30</u></u>

BIG RIVERS ELECTRIC CORPORATION

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CASE NO. 2012-00492**

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on February 28, 2013**

March 5, 2013

Item 4) Provide the balance from the \$60,000,000 designated for ordinary capital expenditures from the CoBank secured loan remaining after capital expenditures in February of 2013.

Response)

If the assumption is made that all capital expenditures since August of 2013 reduce the \$60,000,000, the balance after February 28, 2013, is \$38,328,265.

Witness) Billie J. Richert

1 **VERIFICATION**

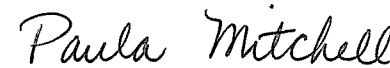
2
3 I, Billie J. Richert, Vice President Accounting, Rates and Chief Financial
4 Officer for Big Rivers Electric Corporation, hereby state that I have read the
5 foregoing responses of Big Rivers Electric Corporation to the information requests
6 from the February 28, 2013 hearing in Case No. 2012-00492, and that the
7 information contained therein is true and correct to the best of my knowledge and
8 belief, on this the fourth day of March, 2013.

9 

10 Billie J. Richert
11 VP Accounting, Rates and Chief Financial Officer
12 Big Rivers Electric Corporation
13
14

15 COMMONWEALTH OF KENTUCKY)
16 COUNTY OF HENDERSON)

17
18 The foregoing verification statement was SUBSCRIBED AND SWORN to
19 before me by Billie J. Richert, Vice President Accounting, Rates and Chief Financial
20 Officer of Big Rivers Electric Corporation, on this the fourth day of March, 2013.

21
22 

23 Notary Public, Ky., State at Large
24 My commission expires: 1-12-17
25
26