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September 25, 2008

RECEIVED
SEP 30 2008
PUBLIC SERVICE COMMISSION

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***<u>The Application of Big Rivers Electric Corporation for: (i) Approval of Wholesale Tariff Additions for Big Rivers Electric Corporation, (ii) Approval of Transactions, (iii) Approval to Issue Evidences of Indebtedness, and (iv) Approval of Amendments to Contracts; and of E.ON U.S. LLC, Western Kentucky Energy Corp., and LG&E Energy Marketing, Inc. for Approval of Transactions</u>***
Case No. 2007-00455

Dear Ms. Stumbo:

This letter is written by Big Rivers Electric Corporation ("Big Rivers") to advise the Public Service Commission ("Commission") of the resolution of issues created by the downgrading of the financial rating of Ambac Assurance Corporation ("Ambac"). Big Rivers proposes to terminate by September 30, 2008, on terms that will be locked in on Friday, September 26, 2008, three leveraged leases of certain of its generating plants that were entered into in 2000 with Bluegrass Leasing, a subsidiary of Philip Morris Capital Corporation ("PMCC"). As described in detail below, termination of the leveraged leases with PMCC will eliminate the issues created by the downgrade of the Ambac ratings.

The buyout of the PMCC leveraged leases ("PMCC Buyout") is a separate issue from the request for approval of the unwind of the long-term lease and power purchase transactions with E.ON U.S., LLC, and certain of its subsidiaries and affiliates ("E.ON Entities").

The details, costs and implications of termination of the PMCC leveraged leases are described in the attached Affidavit of C. William Blackburn, the Chief Financial Officer of Big Rivers (the "Blackburn Affidavit"). In the interest of time, that affidavit was prepared using an extensive excerpt from supplemental testimony Mr. Blackburn had prepared to submit in the near future in this case, which accounts for the format of that affidavit. Big Rivers and the other applicants in this case (the "E.ON Entities") are proposing a conference call to review these developments with Commission staff and the parties in this case for Friday, September 26, 2008, at 9:00 a.m., EDT.

No Commission approvals are sought for the transaction described in this letter and in the Blackburn Affidavit. This transaction is non-jurisdictional for the reasons noted below.

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The timing of this letter is driven solely by the fact that most of the terms that made termination of the PMCC leveraged leases feasible and economically advantageous were first formulated on Wednesday, September 24, 2008. Those terms are still in the documentation stage. For the closing of the termination of the PMCC leveraged leases to occur by September 30, 2008, Big Rivers must lock in terms for liquidation of certain investments no later than Monday morning, September 29, 2008, and the documents to effectuate the termination must be agreed upon and in final form by that date.

The Commission is generally familiar with the background of the PMCC leveraged leases. On April 18, 2000, Big Rivers consummated five virtually identical lease and leaseback transactions ("Leveraged Leases")[1] of its ownership interest in (i) D. B. Wilson Unit No. 1 (the "Wilson Unit"), and (ii) Plant Robert D. Green Unit 1 and Unit 2 (the "Green Units"), and certain associated facilities. Two undivided Head Lease interests totaling approximately 57.2 percent of Plant Wilson were created in favor of trusts, the owner of which was a subsidiary of Bank of America Leasing Corporation (successor by merger to Fleet Bank, herein "BoA"). Another Head Lease of an undivided 42.8 percent interest in Plant Wilson and two Head Leases of undivided interests totaling 100 percent of Plant Green were created in favor of trusts, the owner of which is PMCC (collectively, these Head Lease interests, the Facility Leases pursuant to which the undivided interests in Plants Green and Wilson were leased back to Big Rivers and the other Operative Documents in such lease transactions, the "PMCC Leases"). The PMCC Leases are supported by and dependent upon the credit of Ambac, and the maintenance by Ambac of an exceptional credit rating.

The two transactions involving BoA were terminated on June 30, 2008. The termination of those leases had been contemplated as part of the Unwind Transaction, but became critical at the end of June to take advantage of favorable terms for termination that expired on June 30, 2008.

Just before the BoA leases were terminated, on June 19 Moody's Investor Services, a credit rating service, announced a downgrade of Ambac's credit rating that fell below the credit rating required by the terms of the Leveraged Lease documents. During the conference call in this proceeding on Thursday, June 26, 2008, the parties and Commission counsel were informed that the downgrade of the credit rating of Ambac, and its implications under the Big Rivers' Leveraged Leases created a problem (the "Ambac Issue") that must be solved before the closing of the Unwind Transaction. And because that resolution was likely to impact several aspects of the filings made in Case

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[1] Approval to enter into the Leveraged Leases was granted by the Commission in its orders of November 24, 1999 and March 29, 2000 in Case No. 99-450, *In the Matter of: Big Rivers Electric Corporation's Application for Approval of a Leverage Lease of Three Generating Units.*

No. 2007-00455, the Applicants requested the hearing scheduled in the Unwind Transaction case for Tuesday, July 1, 2008 be postponed.

Termination of the BoA leases fortuitously solved the Ambac Issue as it related to the BoA leases. But the Ambac Issue remains a critical problem under the PMCC Leases that must be resolved, whether or not the Unwind Transaction is approved or closes. Big Rivers' financial exposure upon the bankruptcy of Ambac Assurance Corporation, for example, could exceed an additional $580,000,000.

The financial market crisis also raises questions about the viability of the obligations of AIG Matched Funding Corp., a subsidiary of American International Group, Inc. ("AIG"), which provides three funding agreements in the PMCC Leases. The purpose of those funding agreements is to economically defease the equity portion of rent under the PMCC Leases, and the purchase option price under the fixed price purchase option provided in the PMCC Leases. Termination of the PMCC Leases is being done at this time, prior to closing of the Unwind Transaction, in part because of the fear that the redemption price which will be paid by AIG for the Funding Agreements will decline in response to increases in the London Inter Bank Overnight Rate ("LIBOR"). The redemption price of the Funding Agreements is tied to a spread over LIBOR; as LIBOR increases, the redemption price does down.

Big Rivers' obligation to resolve the Ambac Issue is very time-sensitive. In addition to other reasons stated in this letter and in the Blackburn Affidavit, Big Rivers had only 60 days from the initial Ambac downgrade to replace Ambac's credit, and has been operating under brief, successive forbearances by PMCC since the expiration of that 60-day period in August.

As part of the proposed "unwind" of Big Rivers' existing lease and power purchase arrangements with the E.ON Entities, Big Rivers has considered various alternatives for dealing with the PMCC Leases. Those alternatives are described in the Affidavit of C. William Blackburn, at pages 18 through 31. For the reasons he explains, Big Rivers has concluded that the only viable alternative, which best serves the interests of Big Rivers and its members, is to terminate the PMCC Leases.

As occurred in connection with the termination of the BoA leases, circumstances have combined to make immediate termination of the PMCC Leases desirable for reasons of economy and risk-control. PMCC is willing to make a concession in the form of a short-term loan that will enable Big Rivers to terminate the PMCC leases now. This concession is described in the Blackburn Affidavit at pages 37 through 39. The unprecedented turmoil in the financial markets, including great uncertainty about the impact of that turmoil on the obligations of Ambac and AIG, make immediate termination of the PMCC Leases compelling. These issues are also discussed in the Blackburn Affidavit, at pages 29 through 31.

The documentation for the termination of the PMCC Leases is very similar to that used for the termination of the leases with BoA. Bluegrass Leasing, Big Rivers and the other parties to the PMCC Leases will execute an Omnibus Termination Agreement (the "PMCC Omnibus Termination Agreement") to implement the termination of the PMCC Leases. That agreement is identical in most respects to the BoA lease termination Omnibus Termination Agreement already filed with the Commission. The termination price for the PMCC Leases is discussed in the Blackburn Affidavit at pages 33 through 38. A substantial portion of the termination price to be paid to PMCC (approximately $214 million) will be provided by the early redemption of the three funding agreements provided by AIG through a guaranteed investment contract ("AIG GIC"). Approximately $109 million of the balance of the termination price to be paid to PMCC will be provided by Big Rivers from its own funds and from any proceeds of the government securities subject to the PMCC Leases Government Securities Pledge Agreements in excess of the amount necessary to pay the outstanding principal plus prepayment premium, on the Series B debt owed to CoBank, ACB.

In addition, as a result of the concession from PMCC, Big Rivers will borrow up to $20 million of the termination price from PMCC on a short-term, unsecured basis (the "PMCC Loan"). This borrowing will call for Big Rivers to repay the loan in full upon the closing of the Unwind Transaction or by December 31, 2009. Assuming the Unwind Transaction closes by year-end, an E.ON Entity will reimburse Big Rivers an additional portion of the termination payment such that Big Rivers and the E.ON Entity will each pay approximately one-half of the portion of the termination payment in excess of the proceeds of the AIG GIC.

The PMCC Omnibus Termination Agreement will terminate all the contracts and property interests created in connection with the PMCC Leases. The exposures of Big Rivers to the credit of Ambac and AIG will cease for the leases. All mortgages and security agreements created in connection with these transactions will be terminated. Big Rivers will retain only an obligation under the general tax and federal income tax indemnities executed in connection with the PMCC Leases with respect to indemnified acts, facts and circumstances occurring or existing on or prior to the date of execution of the PMCC Omnibus Termination Agreement.

The financial implications for Big Rivers of terminating the PMCC Leases are discussed in the Blackburn Affidavit at pages 38 through 46. Mr. Blackburn examines those impacts under a scenario in which the Unwind Transaction closes as contemplated, and under a scenario that assumes continuation of the existing transaction resulting from a failure of the Unwind Transaction to be consummated. *See*, Blackburn Affidavit at pages 39 through 42. As Mr. Blackburn explains, Big Rivers is viable under either set of assumptions. Termination of the PMCC Leases is expensive for Big Rivers, but this is the best available alternative under the unprecedented circumstances faced by Big Rivers.

Big Rivers determined that the BoA lease termination arrangements were not subject to Commission jurisdiction, and so advised the Commission in a June 24, 2008 letter (the "Big Rivers BoA Letter"). At the request of Big Rivers, Commission General Counsel examined the issue and concurred with Big Rivers in a non-binding, advisory opinion issued June 27, 2008 (the "Advisory Opinion"). For the convenience of the Commission and the parties, Big Rivers attaches to this letter a copy of the June 24, 2008 letter from Big Rivers' counsel to the Executive Director of the Commission, and the June 27, 2008 Advisory Opinion issued by the Commission General Counsel.

The PMCC Lease termination is also a Commission non-jurisdictional event for the precise reasons stated in the Big Rivers BoA Letter and in the Advisory Opinion. The PMCC Lease termination is not a "change of control" of a utility that triggers Commission approvals under KRS 278.020(5) or (6). Big Rivers is retiring evidences of indebtedness, and is not issuing any new evidences of indebtedness for which Commission approval is required. The $20 million note to PMCC is unsecured, and payable in less than two years. KRS 278.300(8). No term in the Leveraged Leases prohibits termination of the leases as contemplated by Big Rivers[2].

The resolution of the Ambac Issue through the PMCC Buyout is of critical importance to Big Rivers in these unpredictable financial times. Big Rivers is pleased to be able to present this Ambac Issue solution to the Commission and the parties, and is grateful for their patience during the period required to identify and implement this solution.

Sincerely yours,

James M. Miller

James M. Miller
Counsel to Big Rivers Electric Corporation

c: Richard Raff, Esq.
All Parties

[2] See, Affidavit of C William Blackburn, attached, at pages 32 through 33.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

THE APPLICATIONS OF BIG RIVERS ELECTRIC CORPORATION FOR: (I) APPROVAL OF WHOLESALE TARIFF ADDITIONS FOR BIG RIVERS ELECTRIC CORPORATION, (II) APPROVAL OF TRANSACTIONS, (III) APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS, AND (IV) APPROVAL OF AMENDMENTS TO CONTRACTS; AND	)	CASE NO. 2007-00455
OF E.ON U.S., LLC, WESTERN KENTUCKY ENERGY CORP. AND LG&E ENERGY MARKETING INC. FOR APPROVAL OF TRANSACTIONS	)	

AFFIDAVIT OF
C. WILLIAM BLACKBURN

Commonwealth of Kentucky)
County of Henderson)

Comes the Affiant, C. William Blackburn, and after first being duly sworn, affirms that the answers given to the following questions are true and correct to best of his knowledge and belief.

I. OVERVIEW

Q. Please state your name and position.

A. My name is C. William Blackburn. I am employed by Big Rivers Electric Corporation ("Big Rivers") as its Vice President Financial Services, Chief Financial Officer ("CFO") and Interim Vice President Power Supply.

Q. Are you the same C. William Blackburn who earlier provided testimony in these proceedings?

A. I am.

Q. Why is Big Rivers now presenting this Affidavit?

A. Big Rivers is presenting this Affidavit in order to keep the Commission fully apprised with the terms of a negotiated financial resolution of complications arising under its 2000 leveraged lease transactions of undivided interests in Plants Green and Wilson with Bluegrass Leasing Corporation, a subsidiary of Philip Morris Capital Corporation ("PMCC") (the "PMCC Lease Transaction"). These complications were precipitated by a downgrade in the claims-paying ability of Ambac Assurance Corporation ("Ambac") by Moody's Investors Services ("Moody's") on June 19, 2008, which downgrade exposed Big Rivers to adverse consequences under the contractual terms of the leveraged lease transactions with PMCC.

After several months of focused efforts, sharpened by the recent unrest in financial markets, Big Rivers has resolved the issues relating to Ambac's financial downgrade by agreeing to an immediate termination of its leveraged lease transactions with PMCC under a negotiated buyout structure featuring financial contributions from Big Rivers and PMCC (the "PMCC Buyout").

Q. How is this Affidavit structured?

A. I begin with an overview of the existing PMCC Leveraged Leases in order to explain why the Ambac credit downgrade precipitated the need for Big Rivers to act to buy them out.

I then explain various measures Big Rivers considered prior to determining to enter into the PMCC Buyout on the terms explained in this Affidavit. As this section demonstrates, Big Rivers' decision to enter into the PMCC Buyout on the expedited timeframe explained herein was the most prudent option available to Big Rivers and came only after consideration of a number of alternatives.

I conclude with a discussion of the terms of the PMCC Buyout and the roles played by the various parties financially in the buyout. I also briefly explain the relationship between the PMCC Buyout and Big Rivers' proposed Unwind Transaction, approval for which has been sought in the above captioned case. Big Rivers is in the process of supplementing its application in this proceeding and will be making that filing shortly.

Q. Is Big Rivers filing this Affidavit and the documents implementing the PMCC Buyout in order to obtain Commission approval of those documents?

A. No. As explained in the attached September 25, 2008 letter from counsel for Big Rivers to the Commission, the PMCC Buyout is non-jurisdictional. In this respect the PMCC Buyout is the same as the buyout of the leveraged lease transactions with a subsidiary of Bank of America Leasing Corporation (successor by merger to Fleet Bank, herein "BoA")("BoA Buyout"), which did not require Commission approval. Big Rivers is providing this Affidavit and these documents to the Commission for informational purposes.

Q. Are the facts in the September 25, 2008 letter from Big Rivers' counsel to the Commission true and correct to the best of your knowledge and belief?

A. Yes. I have provided the factual basis for the statements in that letter and have reviewed that letter to make sure that it is accurate.

II. <u>THE PMCC LEVERAGED LEASES AND AMBAC'S CREDIT DOWNGRADE</u>

Q. Would you please provide an overview of Big Rivers' 2000 Leveraged Leases?

A. Certainly. As the Commission is aware, in 2000 Big Rivers entered into five leveraged lease transactions, two of which concerned an undivided 57.2% interest in D.B. Wilson Unit No. 1 involving BoA (the "BoA Lease Transaction") and three others of which concerned 100% undivided interests in Plants Robert D. Green Units 1 and 2 and a 42.8% interest in D. B. Wilson Unit No. 1 involving Bluegrass Leasing, a subsidiary of PMCC. Generally speaking, these leases provided the investors/lessors (BoA and PMCC) with certain advantages of ownership in return for an upfront payment to Big Rivers, and Big

Rivers then was required to lease back the units over a specified term designed to compensate the investors for their initial capital outlay. The Lease Agreements obligated Big Rivers to provide credit enhancements for the benefit of the investors/lessors for Big Rivers' obligations under the Lease. In the event the Lease Transactions were to end prematurely, the negotiated terms of the agreements provided for certain termination value payments to be made by Big Rivers as liquidated damages to reflect the expected financial benefits yet to be achieved by BoA and PMCC as investors.

Q. How does Ambac figure into these arrangements?

A. Ambac's role in the PMCC Leveraged Leases was to serve as an insurer of Big Rivers' obligations to PMCC. As I noted above, Big Rivers was required to maintain throughout the term of the PMCC Leveraged Leases certain minimum collateral requirements to secure its financial obligations to the lessor (largely relating to certain lease termination payments established as liquidated damages sufficient to discharge the debt in the lease transaction, to pay the unrecovered portion of the investor's cash investment in the leased assets, and to make the investor whole for any tax detriment to the investor resulting from an early termination). These minimum collateral requirements, which are set forth in Section 7.5 of the Participation Agreement between Big Rivers and PMCC, were to be provided in the form of a Qualifying Swap, a Qualifying Facility Lease Surety Bond, or a Qualifying Letter of Credit (all terms as defined under the terms of the Participation Agreement). In 2000, Big Rivers determined to meet this requirement by entering into a Qualifying Swap with a subsidiary of Ambac, Ambac Credit Products, LLC ("ACP"). Big Rivers paid Ambac a financial premium to provide this guaranty.

Q. Does the agreement with Ambac still qualify as a Qualifying Swap under the terms of the agreements negotiated with PMCC?

A. No, it does not. On June 19, 2008, Moody's rating service downgraded the claims-paying ability of Ambac (and thus ACP) to "Aa3" thereby rendering Big Rivers' existing credit default swap provided by Ambac as non-qualifying under the terms of the Participation Agreement (which required a minimum Aa2 rating). Big Rivers was served notice under the PMCC lease that as a consequence of the Ambac downgrade, Big Rivers no longer was able to rely on the Ambac arrangement as a Qualifying Swap to meet this contractual collateral requirement.

Q. What do the PMCC Lease Transaction documents require in the event of a loss of the Ambac Qualifying Swap?

A. Section 7.5 of the Participation Agreement requires Big Rivers to replace a Qualifying Swap which has become non-qualifying within 60 days of Big Rivers' actual notice of such event or the date of receiving notice from the Owner Participant. Section 16(h) of the Facility Lease provides that it shall be an Event of Default thereunder if Big Rivers fails to observe or perform an obligation in Section 7.5 of the Participation Agreement. No additional notice or cure period is required for such nonperformance to ripen into an Event of Default after the 60 day replacement period specified in Section 7.5 of the Participation Agreement.

Q. What remedies does the Participation Agreement provide to PMCC in the event of an uncured event of default?

A. Under the provisions of the Leasehold Mortgage and Security Agreement of the PMCC Lease Transaction, PMCC, as the Owner Trust, has generally assigned most of its rights under the Facility Lease to AME Investments, LLC, as Agent on behalf of the Lenders, but has retained the right to declare the Facilities Lease in default and make the demand for payment of the Equity Portion of Termination Value pursuant to Section 17.1(g) of the Facility Lease. Thus, a failure by Big Rivers to perform its covenant to maintain "Qualifying" credit enhancement pursuant to Section 7.5 of the Participation Agreement or a failure to satisfy Basic Rent obligations can lead to either AME Investments, as Agent for the Lenders, or PMCC, as the Owner Trust, exercising remedies under the Facility Lease.

If an Event of Default under the Facility Lease occurs on grounds of failure to perform the obligation required by Section 7.5 of the Participation Agreement or a failure to make the necessary payments, PMCC would have the option to (i) settle the Qualifying Swap with ACP; (ii) exercise remedies under the Facility Lease; or (iii) exercise the Special Equity Remedy provided in Section 11A of the Participation Agreement. Settlement of the Qualifying Swap by the Owner Participant could result in the election by ACP to settle the Big Rivers Swap with Big Rivers. Were PMCC comfortable with ACP's current ability to fulfill its obligations under the Qualifying Swap, presumably PMCC would pursue this remedy.

Q. What would be the practical effect on Big Rivers of PMCC exercising one of these remedies?

A. Depending upon the remedy exercised, Big Rivers would either owe a Termination Value payment or the Equity Portion of Termination Value payment (either to PMCC directly or to ACP were PMCC to elect to settle the swap with it). At present, the current aggregate Equity Portion of Termination Value under the three Facility Leases is approximately $222 million, meaning that Big Rivers would owe PMCC this amount in the event of a default under the PMCC Lease Transaction.

Q. Does the structure of the 2000 PMCC Lease Transaction provide for any offsets against a Termination Value Payment that would be owed?

A. Yes. The PMCC Lease Transactions provide for Big Rivers to have the proceeds of the Payment Agreement, the Funding Agreement and the securities subject to the Government Securities Pledge Agreement to apply against such Termination Value Payment obligation. As structured, the proceeds of the Payment Agreement should be sufficient to discharge Big Rivers' obligation to pay a portion of Termination Value in an amount equal to the outstanding principal balance of the Series A Loan. Under existing market conditions, the proceeds of the securities subject to the Government Securities Pledge Agreement should be more than sufficient to discharge Big Rivers' obligations to pay a portion of Termination Value in an amount equal to the outstanding balance of the Series B Loan. And in a default, the Funding Agreement would be redeemed by AIG Matched Funding Corp., a subsidiary of American International Group, Inc. ("AIG"), in an amount equal to the Market Termination Amount. The three AIG Funding Agreements serve to economically defease the equity portion of the rent under the PMCC Leases and the purchase option price under the fixed price purchase option provided in the PMCC Leases.

Q. Are the amounts of these three offsetting AIG Funding Agreements fixed?

A. No. The amount received would be subject to exact quantification only at the time of redemption. The redemption value under the AIG Funding Agreements is tied to general market conditions such as the London Inter Bank Overnight Rate ("LIBOR"). Changes to LIBOR have a resulting effect on the redemption value. The amount Big Rivers could expect to receive from a redemption has varied significantly over the last three months depending upon the condition of the financial markets. Although at certain points these proceeds from the offsetting agreements was estimated to be in the neighborhood of $68 million, more recent market conditions have indicated a value in the neighborhood of $85 million to $92 million.

Q. How would you estimate Big Rivers' exposure to PMCC were it to declare an event of default based on the Ambac credit downgrade in the absence of some negotiated resolution?

A. Absent a negotiated resolution, PMCC, commencing 60 days after June 19, 2008 (the date of the Ambac credit downgrade), can determine to declare an event of default that ultimately would result in Big Rivers generally being required to pay PMCC the difference between $222 million (the Equity Portion of Termination Value payment) and the estimated net proceeds of the three AIG Funding Agreements, also called the AIG guaranteed investment contract ("GIC"). The difference would be an obligation of Big Rivers not covered by the proceeds of any economic defeasance instruments.

Q. Would Big Rivers' exposure increase were Ambac to enter bankruptcy such that it could not satisfy its obligations?

A. Yes, significantly. The termination value payment described above assumes a situation with a still viable Ambac, albeit one with a downgrade in its financial rating such that it can no longer adequately collateralize Big Rivers' obligations to PMCC. This scenario assumes that Ambac would still be able to satisfy obligations regarding the "loop debt" involved in the PMCC Lease Transactions. Were Ambac to enter bankruptcy or otherwise be unable to satisfy its obligations regarding this "loop debt", Big Rivers would be exposed to significant "loop debt" obligations which could exceed an additional $583 million above the amount owed under the described termination value payments. I explain the specifics of this risk at greater length in my testimony below.

Q. Why did the loss of the Ambac arrangement as a Qualifying Swap cause Big Rivers to delay its ongoing effort in this case to obtain approval to unwind its long-term lease transaction with E.ON U.S., LLC ("E.ON") (the "Unwind Transaction")?

A. The Ambac ratings downgrade came at a time immediately before the scheduled hearing date in this proceeding. At the time, Big Rivers and E.ON were hopeful that they would be able to obtain Commission approval for the Unwind Transaction based on the record they had presented to the Commission. But Big Rivers' support for obtaining that approval rested in part on the modeling of Big Rivers' financial situation after closing of the Unwind Transaction.

Given the above-described PMCC contractual requirements, and the potential for an event of default absent a satisfactory resolution, Big Rivers knew immediately after learning of the Ambac downgrade on June 19, 2008 that a financial resolution of the Ambac issues would be required before the Unwind Transaction could be closed. Big Rivers was aware that resolution of the loss of the Ambac Qualifying Swap almost certainly would increase Big Rivers' costs in one respect or another and that any replacement arrangement likely would have a measurable financial effect on Big Rivers. Accordingly, on June 26, 2008, Big Rivers and E.ON in a conference call notified the Commission and other parties that the pending Application and hearing in this proceeding would be affected by the Ambac credit downgrade and that Big Rivers and E.ON had no choice but to request a postponement of the July 1, 2008 hearing date in Case No. 2007-00455 to permit Big Rivers to negotiate a resolution of this issue.

III. <u>BIG RIVERS' APPROACH TO RESOLVING THE AMBAC CREDIT DOWNGRADE ISSUES</u>

Q. How did Big Rivers ultimately determine to resolve the issues created by the loss of the Ambac Qualifying Swap?

A. Although Big Rivers considered a number of financial resolutions to resolve the issues created by the loss of the Ambac Qualifying Swap, Big Rivers ultimately determined that the cleanest, least-risk and least-cost solution would be to terminate the PMCC Lease Transaction through a negotiated buyout with PMCC to take place no later than September 30, 2008. As I mentioned, Big Rivers already had terminated two similar leases of undivided interests in Plant Wilson with trusts owned by a subsidiary of BoA on June 30, 2008, and this structure offered a tried and true alternative while offering Big Rivers a means to capitalize on currently high redemption values of the AIG Funding Agreements. Moreover, this PMCC Buyout approach maintained satisfactory Big Rivers economics even were the Unwind Transaction not to close, and Big Rivers required a resolution in either event.

Accordingly, Big Rivers, upon consultation with its board, the Rural Utilities Service ("RUS"), and E.ON determined that a similar buyout of the PMCC Leveraged Leases offered the best means of resolving the potential defaults under the Leverage Leases presented by the loss of the Ambac Qualifying Swap while at the same time minimizing Big Rivers' continued exposure to an increasingly unstable financial market. Below, I discuss the specifics by which the existing PMCC Leveraged Lease structure will be terminated. But first I discuss the course of negotiations and events that led Big Rivers to select a buyout as the preferred solution.

Q. You state that under the terms of the PMCC Leveraged Lease Participation Agreement Big Rivers had 60 days to develop a credit enhancement proposal or a replacement credit proposal. Did Big Rivers implement a final credit enhancement proposal within the 60 days permitted by the Participation Agreement?

A. No, it did not. Sixty days after June 19, 2008 was August 18, 2008, and Big Rivers was not able to finalize and implement a new credit enhancement or credit replacement arrangement by that date. However, Big Rivers worked with PMCC, E.ON, the RUS and other parties to develop a mutually acceptable financial resolution to the dilemma presented by the Ambac rating downgrade and an increasingly apparent AIG instability. Although not completed by August 18, the parties made sufficient progress such that PMCC elected temporarily to forebear exercising any remedies available to it. The parties thus continued to negotiate the plan Big Rivers is now describing to the Commission.

Q. Would PMCC indefinitely have continued to waive this noncompliance had Big Rivers been unable to negotiate this resolution?

A. No. Big Rivers' noncompliance was only temporarily waived by the equity parties and the lenders in the PMCC Lease Transaction. Although Big Rivers' decision to terminate the PMCC Lease Transaction by September 30, 2008 was made in part to capitalize on current market conditions which have produced higher values for the AIG Funding Agreements while eliminating continued exposure to Ambac and AIG credit risk, an additional significant consideration was Big Rivers' wish to satisfy PMCC's need for a resolution of this issue prior to the end of the third financial quarter. Absent a PMCC Buyout by the end of the third quarter, Big Rivers had no assurance that these waivers would be extended indefinitely, thus potentially subjecting Big Rivers to the risk of a declaration of an event of default by PMCC or its agent.

Q. What other options did Big Rivers consider to resolve the financial difficulties posed by the Ambac ratings downgrade?

A. Initially, Big Rivers and its financial advisors saw three potential avenues for Big Rivers to deal with the difficulty posed by the loss of the Ambac Qualifying Swap: (1) provide an alternative credit enhancement meeting the requirements of the operative documents of the PMCC Lease Transaction; (2) develop new collateralization of the equity amounts potentially owed in the event of a default under the PMCC Lease Transaction; and (3) terminate the PMCC Lease Transaction in a buyout transaction.

Q. What did Big Rivers conclude regarding the potential for providing an alternative credit enhancement?

A. Sections 7.5, 7.6 and 7.7 of the Participation Agreement set forth the requirements for a qualifying credit enhancement. In order to qualify, the credit enhancement must constitute: (i) a credit default swap in a form similar to the swaps insured by Ambac, and be made or insured by an entity the long-term senior unsecured debt obligations or financial strength rating of which is at least "AA" by Standard & Poor's and "Aa2" by Moody's; (ii) a surety bond issued by an insurer, the long-term senior unsecured debt obligations or financial strength ratings of which is at least "AA" by S&P and "Aa2" by Moody's; or (iii) a letter of credit issued by a bank, the long-term senior unsecured debt obligations of which are rated at least "AA" by S&P and "Aa2" by Moody's. Thus, although the types of enhancement can come from a variety of financial institutions, the ratings are roughly similar and exclusive. Given Big Rivers' existing restrictions on obtaining new financings unencumbered or subordinated to the numerous existing obligations, Big Rivers determined that it would be extremely difficult, if not impossible, to find a credit enhancer that would accept Big Rivers without an investment grade credit rating. This conclusion remained the same even if the new credit enhancer essentially could be placed in the same security package as Ambac, including being secured under Big Rivers' first lien instrument.

Q. Were there any other obstacles to the use of alternative credit enhancers?

A. Yes. Providing alternative credit enhancement in the Lease Transaction is complicated by the fact that the existing credit enhancement, the Qualifying Swaps insured by Ambac, also provide the means to avoid the imposition of the provisions of Section 502(b)(6) of the United States Bankruptcy Code on the claims of the equity investor and lenders in the Lease Transactions. The Qualifying Swaps provide for settlement in the amount of the total Termination Value under the leases. The Big Rivers Swaps under which Ambac could seek payment from Big Rivers for an identical amount following settlement of the Qualifying Swaps are secured by a security interest in the AIG guaranteed Funding Agreement, the FHLMC securities used in the economic defeasance of the Series B debt and the Ambac-issued Payment Agreement. Another credit enhancer stepping into the shoes of Ambac under the Qualifying Swaps likely would be reluctant to accept this security package, the single largest component of which is the Ambac-insured Payment Agreement.

Replacement of Ambac as credit enhancer under the Qualifying Swaps might necessitate replacement of the Series A "loop debt" arrangements as well, which would be a further complication. This replacement also likely would prove expensive, as few entities, if any, are able to provide such a vehicle with "zero weighting" – that is, not having to reserve against its exposure under the loan in the "loop debt" structure since it is secured by the obligation of its affiliate. If zero weighting for the remaining portion of the Series A "loop debt" were not achieved, the Payment Agreement would reflect an implicit yield lower than the coupon on the non-lessee-provided portion of the Series A “loop debt”, which would make this replacement at best expensive and, at worst, unavailable.

Q. Did Big Rivers nevertheless explore third-party credit enhancement suppliers and their willingness to provide alternative credit enhancement?

A. Yes. Despite the weakness of this approach, Big Rivers in late June and early July explored the possibility of providing alternative credit enhancement with a number of insurers and banks. Even then, the tightness in the credit markets made credit enhancement of this sort extremely expensive, even for those unlike Big Rivers with good credit. This problem now is further exacerbated. For this reason, Big Rivers ultimately rejected the possibility of introducing additional credit enhancement into the PMCC Lease Transactions.

Q. What did Big Rivers conclude regarding its second option -- developing an alternate collateralization under the PMCC Leveraged Leases?

A. Initially, Big Rivers regarded an alternate cash collateralization method as offering an acceptable solution to resolving the loss of the Ambac Qualifying Swap. Under an alternate cash collateralization method, Big Rivers considered reserving a portion of the proceeds from the Unwind Transaction in an amount necessary to cover the so-called "equity strip" in the PMCC Lease Transaction. The "equity strip" that would be collateralized under this approach would be an amount equal to (i) the Equity Portion of the Termination Value set forth in the Participation Agreement (calculated as the gross Termination Value minus the outstanding principal balance of Series A and Series B debt) minus (ii) the accreted value of the AIG Funding Agreements. The amount Big Rivers would need to collateralize would decline over time during the remaining term of the Lease Transactions as the accreted value of the AIG Funding Agreements increases.

In order to fund this cash collateralization approach, Big Rivers would have needed to reduce its initial prepayment of RUS debt upon closing of the Unwind Transaction significantly by approximately $150 million at the time this option was under consideration (the AIG GIC redemption price in July and early August was estimated at approximately $68 million). However, this approach would allow Big Rivers to have the use of certain funds acting as the collateral because the accreted value of the AIG Funding Agreements would increase and because the Equity Portion of the Termination Value would be reduced each year to reflect another year of operation under the Agreement (and thereby reducing the amount in the "equity strip" required to be collateralized). These amounts could then have been used to prepay additional amounts of RUS debt. Big Rivers saw this ever-declining nature of the obligation to be collateralized as the principal recommendation for this approach. In the meantime, amounts held in reserve for collateral would have been held in an account maintained with U.S. Bank, National Association, as securities intermediary and collateral agent.

Q. Did Big Rivers pursue the cash collateralization alternative with PMCC, RUS, and other parties?

A. Yes. Big Rivers initially pursued this cash collateralization alternative as its preferred option. Big Rivers first met with representatives of the RUS in Washington, D.C. on July 9, 2008 to present the details of the alternate option as capable of meeting the PMCC Leveraged Lease's collateralization requirements. The RUS requested Big Rivers to present a summary of the Ambac issues arising under the PMCC Leveraged Lease documents. The RUS also requested that Big Rivers describe and summarize the alternate cash collateralization proposal Big Rivers was recommending to the RUS. Big Rivers provided RUS with an executive summary of the cash collateralization approach on July 14, 2008. RUS subsequently considered these materials and followed up with a series of written questions, answers to which Big Rivers provided on August 8, 2008.

Q. How did the RUS respond to the alternate cash collateral approach?

A. Despite Big Rivers' efforts to promote the cash collateralization alternative, in late August RUS informed Big Rivers that it was not interested in pursuing the cash collateralization alternative.

Q. Why was the RUS reluctant to agree to the cash collateralization alternative?

A. The RUS expressed two concerns. First, the RUS did not support a reduction of the necessary magnitude in the amount of RUS debt to be prepaid at closing. The RUS was uncomfortable agreeing to a proposal that would result in an approximate $150 million decrease in the debt that would be prepaid to it. The RUS opined that the only way it could even consider a reduction of the debt to be paid at closing of this magnitude would be if Big Rivers were to agree to eliminate the new Indenture and to begin paying interest on the ARVP Note. Big Rivers could not agree to either of these conditions. Second, the RUS was concerned that the alternate cash collateral approach failed to eliminate the risk of further downgrades in Ambac's financial condition, particularly given the potential exposure on the "loop debt" were Ambac to enter bankruptcy or otherwise be unable to satisfy its obligations relating to that debt. By retaining PMCC and its collateralization requirements, the RUS was uncertain that its agreement to reduce the debt prepayment would buy it any additional protection, even though it would resolve the concerns regarding replacement of the Ambac collateralization.

Q. Are there any other considerations disfavoring the collateralization approach?

A. Yes. Subsequent to the RUS' expression of disinterest in the collateralization approach, additional information regarding the precarious financial condition of AIG was disclosed. Because the collateralization approach continued to include a major role for AIG and its redemption of the AIG Funding Agreements, the decision by

RUS and subsequently Big Rivers no longer to pursue the collateralization approach was a good one in hindsight.

Q. How then did Big Rivers come to adopt the PMCC Buyout approach as its preferred resolution?

A. Faced with the RUS' rejection of the cash collateral option, Big Rivers, E.ON, and other parties re-examined the viability of a lease termination approach. On its own, Big Rivers had already determined that a termination of the PMCC Leveraged Leases offered a number of significant benefits. Termination of the PMCC Leveraged Leases would permit Big Rivers to close the Unwind Transaction, would remove Big Rivers from further exposure to the credit volatility of Ambac and AIG, would eliminate continued exposure to indemnities to participants in the Lease Transaction, would eliminate the need for consents or waivers in the future from participants in the Lease Transactions, and would serve to greatly simplify the documentation of the Unwind Transaction. Big Rivers already had entered into a buyout of the BoA Lease Transaction, and Big Rivers recognized the tremendous advantages of removing PMCC from its future financial planning.

Despite these advantages, however, Big Rivers initially had determined that a termination of the PMCC Leveraged Lease would require a substantial cash payment to PMCC of an amount roughly equivalent to $145 million, the Equity Portion of the Termination Value (assuming an AIG Funding Agreement redemption (*i.e.,* GIC) of approximately $68 million). Because this amount, like the alternative cash collateralization option, would require a reduction in the RUS debt prepayment, Big Rivers thought the cash collateralization option's freeing up of collateral as time passed to be a preferable alternative.

Q. What circumstances caused Big Rivers to favor the PMCC Buyout solution?

A. One incentive to favor the PMCC Buyout was E.ON's agreement to fund one-half of the residual lease termination payment to PMCC as an incentive to permit the Unwind Transaction to close. Faced with a much smaller ultimate contribution of its own funds in the event of an Unwind, Big Rivers determined that it could enter into a lease termination and still agree to prepay $125 million to the RUS upon closing of the Unwind Transaction. Second, irrespective of E.ON's participation in the buyout, changes to LIBOR caused by the instability in credit markets caused the value of the AIG Funding

Agreements to increase, thereby lowering the Equity Portion of the Termination Value Payment to PMCC, further increasing the attractiveness of this alternative. Third, a PMCC Buyout would simplify Big Rivers' finances and eliminate the uncertainty concerning the possible failure of AIG or Ambac. The instability in the world credit markets provides a very strong incentive to complete a PMCC Buyout at this time.

Q. How did the RUS view a buyout of the PMCC Lease Transaction?

A. On August 29, 2008, Big Rivers approached the RUS regarding its interest in a lease termination structured in this fashion, and the RUS agreed to review this approach, subject to receipt of further documentation. Big Rivers provided this documentation to the RUS on September 3, 2008. RUS then agreed in principle to this approach on September 12, 2008, thereby permitting Big Rivers to prepare and submit this alternative to the Commission for its approval, pending final RUS approval and execution of buyout documentation.

Q. Did Big Rivers initially intend to terminate the PMCC Lease Transaction as early as September 30, 2008?

A. No. Initially, Big Rivers' discussions with E.ON and PMCC were based on a PMCC Buyout that would take place upon closing of the Unwind Transaction. However, the increased value in the AIG Funding Agreements due to market instability and the disclosed financial instability of AIG led Big Rivers to conclude that an earlier termination by September 30, 2008 offered the greatest opportunity to maximize the value of the AIG Funding Agreements while eliminating continued exposure to the credit of AIG and Ambac. Accordingly, Big Rivers and PMCC have agreed to the terms of the PMCC Buyout now being presented to the Commission on an expedited basis in order to lock in all of these advantages now.

Q. You state that a principal reason Big Rivers is arranging a buyout of PMCC at this time is to eliminate the uncertainty of the failure of AIG or Ambac. Please explain.

A. The future of AIG is unknown and unknowable given the recent turmoil in world credit markets, AIG's financial fragility and the United States government's attempt to bolster AIG's economic condition. The risk of failure is real and the consequences are enormous. In the unlikely event that AIG becomes bankrupt, Big

Rivers would lose the AIG Funding Agreements, which were valued at approximately $88.3 million as of September 25, 2008. Big Rivers would still face a $222 million obligation to PMCC, but would not have the $88.3 million AIG Funding Agreements to offset that obligation.

Q. What are the implications of a potential bankruptcy of Ambac?

A. An Ambac bankruptcy would be potentially catastrophic for Big Rivers because of Big Rivers' resulting exposure to the "loop debt" in the Leveraged Leases.

Q. Please explain.

A. Big Rivers' Series A debt obligation under the Leveraged Leases is held in a company in which Ambac is a minority subsidiary. This Series A debt – or "loop debt" – is offset by a guaranty by Ambac itself to pay the Series A debt obligation. The amount of the Series A debt is $583 million as of July 2008.

If Ambac were to go bankrupt, the amount of its guaranty of the Series A debt would be reset by a bankruptcy court. If, for example, the Ambac guaranty was ultimately worth ten cents on the dollar, Big

Rivers' exposure to the "loop debt" would be over half a billion dollars ($583 million - $58.3 million = $524.7 million).

Q. Would this potential $500,000,000.00-plus obligation be an additional obligation of Big Rivers on top of its other debt?

A. Yes. Big Rivers' $500 million "loop debt" obligation would be in addition to Big Rivers' other obligations, including (as of July 2008) $778.7 million to the Rural Utilities Service, $101.5 million for the RUS ARVP Note, $222 million to PMCC, $15.9 million to LG&E, and $142.1 million for Big Rivers' Pollution Control Bonds. Clearly, eliminating the risks associated with a failure of either AIG or Ambac by buying out PMCC now is highly desirable for Big Rivers.

IV. THE PMCC BUYOUT SOLUTION

Q. When does Big Rivers propose to close the PMCC Lease Transaction termination?

A. Although Big Rivers, E.ON and PMCC originally contemplated a buyout on the closing date of the Unwind Transaction, Big Rivers now intends to close the PMCC Lease Transaction termination on or before the close of business on September 30, 2008 in order to lock in the favorable AIG Funding Agreement market value, to limit continued exposure to the credit of AIG and Ambac, and to end reliance on PMCC's waiver of exercise of its remedies due to default. Big Rivers intends to close the PMCC Buyout regardless of whether the Unwind Transaction occurs.

Q. Is there anything in the PMCC Leveraged Leases which prohibits a termination of the leases as contemplated by Big Rivers?

A. No, not to my knowledge. As I stated earlier, the template for the PMCC Buyout is the same as for the BoA Buyout that Big Rivers successfully closed in June 2008.

Q. How much has Big Rivers agreed to pay PMCC in connection with the PMCC Buyout?

A. Big Rivers agreed to pay PMCC a negotiated termination payment of $214 million less the actual value produced by the sale and redemption of the AIG Funding Agreements and government securities. The termination payment amount is based on the liquidated damages provision contractually included in the PMCC Leveraged Lease documentation. While the PMCC Leveraged Leases specified a starting Termination Value of $222 million at present for the three leases concerned, Big Rivers and PMCC negotiated an $8 million reduction in the stated termination value. This amount represents PMCC's principal contribution to the economic resolution. However, as discussed below, PMCC also has agreed to contribute to Big Rivers a short-term unsecured loan in a maximum amount of $20 million (varying depending on the value of the AIG GIC), to be paid back in full by Big Rivers on the earlier to occur of December 31, 2009 or the date of closing of the Unwind Transaction between Big Rivers and E.ON. This loan is an additional incentive for Big Rivers to agree to an immediate buyout

Q. Does Big Rivers know currently the exact amount that will be owed to PMCC after the AIG Funding Agreements and securities are redeemed or sold?

A. No. The exact amount of the proceeds from the AIG Funding Agreements to be redeemed and the federal agency securities to be sold to reduce the $214 million otherwise payable to PMCC will be known only when Big Rivers locks in the redemption price with AIG. This

AIG price will vary on a daily basis with LIBOR, and AIG has stated that it will permit Big Rivers to lock in a price that will be good for 48 hours. Although the tentative redemption price for the Funding Agreements was estimated on September 25, 2008 to be approximately $88.3 million, the price will be subject to daily fluctuation until Big Rivers actually locks in a price with AIG.

Q. How much of the resulting PMCC termination payment will Big Rivers be responsible for paying after redemption of the AIG Funding Agreement and sale of the securities if the Unwind Transaction closes?

A. Under the terms of their negotiated Cost Sharing Agreement, Big Rivers and E.ON agreed to share equally in the net amount required to be paid to PMCC in connection with the termination after the redemption of the AIG Funding Agreements and securities. As part of the agreement between Big Rivers and PMCC based on the underlying PMCC Leveraged Lease documents, the actual proceeds of the redemption of the AIG Funding Agreements and any remaining proceeds realized from the sale of the federal agency securities first will be utilized by Big Rivers to reduce the $214 million owed to PMCC. Big Rivers will be responsible for paying this amount to

PMCC on or before September 30, 2008. In the event of an Unwind Transaction closing, this remaining net amount paid by Big Rivers to PMCC, less any amount from Co-Bank or other parties involved, will be shared equally between Big Rivers and E.ON.

Q. When does the Cost Share Agreement provide for E.ON to make this payment to Big Rivers?

A. The Cost Share Agreement provides for E.ON to pay its one-half share of the net PMCC Buyout cost at closing of the Unwind Transaction. In addition, although the Cost Share Agreement has not been finalized, it currently provides that the 50/50 sharing of the net PMCC Buyout cost between E.ON and Big Rivers will be capped at $55 million for E.ON if the Unwind Transaction closes after December 31, 2008.

Q. Given the fluctuation in the value of the AIG Funding Agreements, how can Big Rivers know that it is able to afford the PMCC Buyout without a closing of the Unwind Transaction and the receipt from E.ON of its one-half share?

A. Before agreeing to a PMCC Buyout on or before September 30, 2008, Big Rivers determined that it would not be willing to enter into a

PMCC Buyout prior to closing of the Unwind Transaction unless its total out of pocket exposure could be limited to $109 million. Big Rivers arrived at this figure as the maximum amount it was willing to pay given its available cash on hand of approximately $129 million. Big Rivers determined that it needed to maintain no less than $20 million of cash on hand after engaging in the PMCC Buyout, pending either (i) a closing of the Unwind Transaction when Big Rivers would receive E.ON's one-half share of the net PMCC termination payment or (ii) a rate surcharge of approximately ten percent above status quo rates which Big Rivers will immediately seek to ensure stable and secure operations going forward.

Q. What mechanism did Big Rivers and PMCC agree upon to maintain a maximum Big Rivers cash outlay of $109 million and a minimum cash on hand of $20 million after closing of the PMCC Buyout?

A. Big Rivers and PMCC negotiated a variable amount, short-term unsecured bridge loan from PMCC to provide Big Rivers with additional financing up to the earlier to occur of December 31, 2009 or the date of closing of the Unwind Transaction. PMCC indicated that while it was willing to explore a short-term unsecured bridge loan at an 8.5% interest rate to get Big Rivers to the closing of the Unwind Transaction or to a point at which Big Rivers could seek an adjustment to its rates, PMCC stated that under no circumstances would it be willing to lend Big Rivers more than $20 million on an unsecured basis. Given this maximum loan amount and Big Rivers' view that it could not spend more than $109 million in cash, Big Rivers and PMCC determined that PMCC would offer a sliding scale short-term loan based off this maximum $109 million payment.

Q. How is the actual amount of the PMCC loan to be determined?

A. Big Rivers and PMCC agreed that the loan amount would pivot on the amount required to make Big Rivers' immediate out of pocket expense $109 million on the PMCC lease termination subject to the $20 million maximum loan. As an example, assuming the $88.3 million AIG GIC value on September 25, 2008, Big Rivers' net termination payment to PMCC would be $125.7 million ($214 million less $88.3 million). Subtracting $109 million from that figure yields a loan amount of $16.7 million. Given the maximum loan amount of $20 million, the maximum net PMCC lease termination payment Big Rivers could afford while adhering to the $109 million maximum outlay would be

$129 million. Thus, the PMCC Buyout requires an AIG GIC value of at least $85 million, as $214 million less $85 million is $129 million.

Q. What happens if the redemption value of the AIG Funding Agreements is less than $85 million?

A. Big Rivers will not enter into the PMCC Buyout unless the AIG Funding Agreements yield at least $85 million.

Q. What will Big Rivers' source of funding be for the PMCC termination payment to be made on or before September 30, 2008?

A. On or before September 30, 2008, Big Rivers will use its own funds to pay for the PMCC Buyout. The actual amount paid to PMCC will be $109 million, which will be the difference between $214 million and the actual redemption value of the AIG Funding Agreements, less the amount of the loan from PMCC determined as set forth above.

Big Rivers later potentially will receive a contribution from E.ON at the closing of the Unwind Transaction, depending upon the terms settled upon with E.ON and upon a successful closing.

Q. What if the Unwind Transaction does not close after Big Rivers has entered into the PMCC Buyout?

A. If the Unwind Transaction does not close, Big Rivers will not receive an E.ON contribution towards the PMCC Buyout. Big Rivers still will be required to pay back the amount of the loan from PMCC by December 31, 2009, and it still will have paid the $109 million to accomplish the PMCC Buyout.

Q. Will Big Rivers be financially viable if it is required to absorb the PMCC Buyout costs without the E.ON contribution?

A. Yes, Big Rivers will remain financially viable – on the modeled assumptions that Big Rivers is permitted to seek a rate surcharge of approximately ten percent. Big Rivers will request the Commission to approve a surcharge if the Unwind Transaction cannot be closed.

Q. Has Big Rivers modeled the financial effects on its status quo rates if the PMCC Buyout occurs but the Unwind Transaction does not?

A. Yes. Attachment 1 to this Affidavit includes the output of Big Rivers Unwind Financial Model that assumes no Unwind Transaction, a PMCC Buyout closing effective September 30, 2008, and an assumed AIG GIC value of $88.3 million. This model indicates that Big Rivers would need an approximate ten percent rate surcharge on top of existing rates if the Unwind Transaction is not closed.

Q. In the event the Unwind Transaction does close as contemplated, would there be a financial effect on Big Rivers' post-closing operations due to the PMCC Buyout?

A. Yes. Big Rivers would need to reduce the amount of debt to be paid to the RUS at closing to account for the payments made in connection with the PMCC Buyout. Any such effect would be presented by Big Rivers as part of a revision to its Application presenting the revised terms of its transaction.

Q. Has Big Rivers performed any modeling of its financial status in the event both the PMCC Buyout and the Unwind Transaction occur?

A. Yes. Attachment 2 to this Affidavit presents a version of Big Rivers' Unwind Financial Model previously used in this case that assumes a successful Unwind Transaction effective December 31, 2008. This model assumes an AIG GIC value of approximately $68 million. As this model demonstrates, Big Rivers would remain financially viable.

Q. If the Unwind Transaction closes on December 31, 2008, what effect will the PMCC Buyout have on Big Rivers' average rates through 2023?

A. Attachment 3 to this Affidavit shows that the effect of the PMCC Buyout after an Unwind closing on Big Rivers' Non-Smelter Member rates will be an increase of approximately $0.55 per MWh. The average increase to Big Rivers' Smelter rates will be approximately $0.45 per MWh. (Both calculations assume a December 31, 2008 PMCC Buyout closing with a $68 million GIC. A September 30, 2008 closing with a $88.3 million GIC will result in smaller increases.)

Q. Will the RUS approve the PMCC Buyout before it closes?

A. Yes. The RUS is well aware of the effect of the Ambac and AIG credit risks and enthusiastically supports the PMCC Buyout.

Q. Did Ambac provide any financial contribution to the PMCC Buyout?

A. Ambac has agreed to waive its fees and legal services payments in connection with actions necessary to implement the PMCC Buyout.

Q. How will the termination of the PMCC Lease Transaction be documented?

A. As between PMCC on the one hand and Big Rivers on the other, the documents for the PMCC Buyout will follow the same financial structure utilized for the June 30, 2008 BoA Buyout. The major operative document is an Omnibus Termination Agreement among the various parties, including the providers of the economic defeasance instruments, in accordance with which: (1) Big Rivers will pay the termination payment to PMCC; (2) the Series A and Series B Loans will be discharged through proceeds of the funding agreements discussed above; (3) the Funding Agreement will be redeemed and the proceeds applied to the termination payment to be paid to PMCC; (4) the Owner Trusts' interests in Plant Green and Plant Wilson will be conveyed to Big Rivers and the Head Leases will immediately terminate; and (5) all operative documents for the lease transaction will terminate and all parties will agree to provide any necessary releases to effect the release of any liens or security interests of the lease parties in Big Rivers' property. Accordingly, once the PMCC Buyout is closed, PMCC will have no further financial interest in Big Rivers or any of its facilities, apart from the unsecured bridge loan.

As between Big Rivers and E.ON, the documentation of an E.ON commitment relating to the PMCC Buyout will be filed with the Commission at such time as Big Rivers files an amendment to its Application in the Unwind Transaction and is expected to be reflected in a separate Cost Sharing Agreement.

Q. You state that the PMCC Buyout is structured similar to the BoA Buyout. If that is the case, why was it necessary for Big Rivers to make a financial contribution to the PMCC Buyout but not to the BoA Buyout?

A. While the two lease terminations are structured similarly, they differ greatly in terms of the sizes of the remaining equity values involved, in the timing of the termination request relative to the Ambac downgrade and the general financial market turmoil, and in the perspectives of the parties concerned. PMCC and BoA clearly had many considerations which they valued differently, and the amounts required to terminate their lease transactions reflect that. BoA, as an initial matter, was receptive to a termination of its lease transaction, and negotiations with it did not commence in the context of a potential event of default under the BoA Lease Transaction. Instead, these negotiations began well before the Ambac credit downgrade and the widespread market turmoil. By contrast, the PMCC Buyout largely was negotiated after the Ambac credit downgrade, and the amount paid by Big Rivers to terminate the PMCC Lease Transaction closely tracks the Termination Value payment set forth in the PMCC Lease Transaction. PMCC was simply unwilling to accept a lesser amount to terminate the lease and had the leverage of potentially declaring an event of default if it did not receive an amount sufficient to meet its expectations.

Q. Taken as a whole, do you believe that the proposed PMCC Buyout is a prudent resolution of the issues presented by the Ambac credit downgrade?

A. Absolutely. Big Rivers is currently out of compliance with the requirements of the operative documents of the PMCC Leveraged

Leases obligating it to provide equity credit enhancement of a specified credit quality. But for PMCC's waiver of its right to declare an event of default based on this noncompliance, Big Rivers would face an obligation to pay a sum which is well in excess of the proceeds of the economic defeasance instruments securing its obligations under the PMCC Lease Transaction.

Big Rivers must resolve these PMCC Lease Transaction issues whether or not the Unwind Transaction closes, and this buyout alternative both continues to permit the Unwind Transaction to move forward and reduces the costs to which Big Rivers otherwise would be exposed. Were Big Rivers to wait to terminate these leases it would risk continued exposure to the credit risk of Ambac and AIG, and the AIG GIC redemption value would continue to float, adversely affecting Big Rivers were the value to decline. Entering into the PMCC Buyout now eliminates these risks.

Q. Does Big Rivers have any better option if it does not complete the PMCC Buyout at this time?

A. No, it does not. PMCC has stated that its bridge loan is only available if the PMCC Buyout closes in the third quarter of this year. Moreover, addressing the Ambac downgrade is not a question of if, but a question of when. If Big Rivers ignores the Ambac downgrade and Ambac slips into bankruptcy, Big Rivers itself faces almost certain bankruptcy. Options other than a PMCC Buyout are either impractical, more expensive, or unacceptable to the RUS, as I discussed earlier. Delaying a PMCC Buyout would almost certainly cost more, expose Big Rivers to greater risk of an AIG or Ambac failure, and cause Big Rivers to miss the favorable financing terms and conditions currently available to Big Rivers. The time to close the PMCC Buyout is now.

Q. Mr. Blackburn does this conclude your Affidavit?

A. Yes.

Verification

I, C. William Blackburn, Vice President Financial Services, Chief Financial Officer and Interim Vice President Power Supply for Big Rivers Electric Corporation, hereby state that I have read the foregoing Affidavit and the attached cover letter and that the statements contained therein are true and correct to the best of my knowledge and belief, and I verify, state, and affirm that this Affidavit and the attached cover letter are true and correct to the best of my knowledge and belief, on this the 25th day of September, 2008.

C William Blackburn

C. William Blackburn
Vice President Financial Services, Chief
Financial Officer and Interim Vice President
Power Supply
Big Rivers Electric Corporation

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

The foregoing verification statement was SUBSCRIBED AND SWORN to before me by C. William Blackburn, as Vice President and Chief Financial Officer of Big Rivers Electric Corporation, on this the 25th day of September, 2008.

Paula Mitchell

Notary Public, Ky., State at Large
My commission expires: 1-12-09

ATTACHMENT 1

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Energy Balance (GWh)																
Sales																
Members		3,501	3,584	3,674	3,760	3,852	3,939	4,032	4,122	4,217	4,308	4,404	4,498	4,596	4,691	4,786
Arbitrage		2,042	1,961	2,924	3,568	3,440	3,356	3,264	3,179	3,084	2,995	2,901	2,812	2,714	2,612	2,517
Losses		44	44	52	58	57	57	57	57	57	57	57	57	57	57	57
Sales + Losses		5,586	5,588	6,650	7,386	7,349	7,352	7,354	7,358	7,358	7,360	7,363	7,368	7,367	7,360	7,361
Purchases																
Base (LEM)		5,254	5,252	6,322	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008
SEPA		305	305	305	267	267	267	267	267	267	267	267	267	267	267	267
Market		28	32	24	111	74	77	79	83	83	85	88	93	92	85	86
Total		5,586	5,588	6,650	7,386	7,349	7,352	7,354	7,358	7,358	7,360	7,363	7,368	7,367	7,360	7,361
Energy Rates ($/ Mwh)																
Sales																
Members																
Base		35.45	35.42	35.39	44.91	44.87	44.84	44.81	49.55	49.52	49.49	49.46	49.44	49.41	49.38	49.36
% Change			0%	0%	27%	0%	0%	0%	11%	0%	0%	0%	0%	0%	0%	0%
Surcharge		5.14	-	1.36	-	-	-	-	-	-	-	-	-	-	-	-
Total		40.59	35.42	36.75	44.91	44.87	44.84	44.81	49.55	49.52	49.49	49.46	49.44	49.41	49.38	49.36
Arbitrage		49.42	48.14	47.44	48.38	42.67	39.19	39.57	40.93	41.25	42.61	43.82	44.68	44.80	46.34	47.69
Purchases																
Base (LEM)		20.33	20.63	20.95	20.27	20.59	20.92	21.25	21.59	21.93	22.28	22.63	22.99	23.36	23.72	24.08
SEPA		22.44	22.44	22.44	28.33	29.04	29.75	29.75	29.75	29.75	30.50	31.24	31.24	31.24	31.24	32.00
Market (Peak)		200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow ($M)																
Beginning Balance	147.2	37.5	30.7	42.0	51.6	58.8	61.7	56.5	50.2	57.8	67.2	75.9	85.2	97.9	134.5	147.9
Receipts																
Members		142.1	126.9	135.0	168.9	172.8	176.6	180.7	204.2	208.8	213.2	217.8	222.4	227.1	231.6	236.3
Arbitrage		100.9	94.4	138.7	172.6	146.8	131.5	129.2	130.1	127.2	127.6	127.1	125.6	121.6	121.0	120.0
Other		57.6	57.1	54.9	51.1	53.6	53.7	53.5	54.0	54.3	54.7	55.1	55.4	55.9	57.4	57.9
Total		300.6	278.5	328.7	392.6	373.2	361.8	363.3	388.4	390.3	395.5	400.0	403.5	404.6	410.1	414.3
Disbursements																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Purchases and Related		16.1	16.8	16.1	41.2	46.9	46.4	45.7	45.6	44.5	43.9	43.2	43.3	41.9	39.4	38.5
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
RVP		-	-	-	-	-	-	-	-	-	-	-	-	-	-	376.6
Purchase of Production Inventory		-	-	-	-	-	-	-	-	-	-	-	-	-	-	80.1
Other		28.1	9.3	34.2	43.6	34.1	31.9	37.1	40.7	39.8	42.4	43.7	45.5	49.7	51.9	52.6
Total		175.1	159.1	207.9	253.3	252.5	252.8	260.3	266.7	267.8	273.2	277.1	282.2	288.3	291.2	751.3
BREC Share of Capital Expenditures		24.5	18.4	13.6	13.3	8.2	7.9	8.4	9.5	11.1	11.7	13.3	12.3	12.8	13.0	13.5
Debt Service																
New Borrowing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(451.1)
Principal Repayment (incl. ARVP)		39.2	41.0	53.3	77.6	70.2	71.0	69.7	77.4	79.1	83.5	27.0	85.8	60.8	5.8	176.1
Interest		52.9	48.7	44.3	41.1	39.5	35.2	31.2	27.2	22.8	18.5	73.3	10.5	6.0	86.7	-
Total		92.1	89.7	97.6	118.7	109.6	106.2	100.9	104.6	101.9	102.0	100.3	96.3	66.8	92.5	(275.0)
PMCC Lease Buyout																
Termination Payment (net)	(213.8)															
GIC	89.1															
Net	(124.7)															
PMCC Loan	15.0	(15.7)														
Net Cash Flow	(109.7)	(6.8)	11.2	9.6	7.3	2.9	(5.2)	(6.3)	7.5	9.5	8.6	9.3	12.7	36.6	13.4	(75.6)
Ending Balance	37.5	30.7	42.0	51.6	58.8	61.7	56.5	50.2	57.8	67.2	75.9	85.2	97.9	134.5	147.9	72.3

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income Statement																
Revenues																
Members		142.1	126.9	135.0	168.9	172.8	176.6	180.7	204.2	208.8	213.2	217.8	222.4	227.1	231.6	236.3
Arbitrage		100.9	94.4	138.7	172.6	146.8	131.5	129.2	130.1	127.2	127.6	127.1	125.6	121.6	121.0	120.0
Other		37.7	37.8	11.9	11.0	11.6	12.0	12.2	13.1	13.9	14.9	16.1	17.7	19.9	24.1	30.3
Total		280.7	259.1	285.6	352.5	331.2	320.1	322.0	347.5	349.9	355.7	361.1	365.7	368.5	376.7	386.6
Expenses																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Purchases and Related		16.1	16.8	16.1	41.2	46.9	46.4	45.7	45.6	44.5	43.9	43.2	43.3	41.9	39.4	38.5
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
Interest		60.0	55.2	53.0	50.0	46.7	42.5	39.4	35.6	31.9	28.0	25.2	21.2	17.6	16.5	14.0
Other		32.7	26.2	46.3	48.5	40.3	38.5	42.6	44.2	45.1	47.5	48.6	50.3	54.4	56.2	57.5
Total		239.7	231.2	273.0	308.2	305.4	302.0	305.1	305.9	305.0	306.3	307.2	308.2	310.7	312.0	313.4
Net Margin		41.0	27.9	12.7	44.3	25.8	18.1	16.9	41.6	44.9	49.5	53.9	57.6	57.8	64.7	73.2
Balance Sheet																
Assets																
Net Utility Plant	917.2	959.5	968.0	970.5	954.7	945.4	928.6	911.1	892.5	875.6	860.7	848.6	832.9	817.0	800.7	785.1
Sale-Leaseback Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash & Investments	37.5	30.7	42.0	51.6	58.8	61.7	56.5	50.2	57.8	67.2	75.9	85.2	97.9	134.5	147.9	72.3
Receivables & Other	135.9	131.6	124.8	116.1	116.2	111.1	104.5	99.1	95.6	90.2	85.0	79.9	74.9	69.8	64.9	140.3
Assets	1,090.6	1,121.9	1,134.7	1,138.2	1,129.8	1,118.2	1,089.6	1,060.4	1,045.9	1,033.0	1,021.5	1,013.7	1,005.7	1,021.3	1,013.5	997.8
Liabilities & Equities																
Equities	(130.7)	(89.7)	(61.8)	(49.1)	(4.8)	21.0	39.1	56.0	97.6	142.5	191.9	245.8	303.4	361.2	425.9	499.1
Sale-Leaseback Obligation & Unamortized Gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt	1,042.1	994.2	959.5	913.0	842.4	779.6	716.3	654.8	585.9	515.8	441.7	365.8	290.4	240.5	163.2	451.1
RVP/ Lease Advance	152.6	190.6	200.2	232.5	243.7	268.6	285.8	301.6	314.8	327.6	341.1	355.1	365.3	373.1	377.6	0.0
Payables & Other	26.6	26.9	36.8	41.9	48.5	49.0	48.4	48.0	47.6	47.2	46.8	47.0	46.7	46.5	46.8	47.5
Liabilities & Equities	1,090.6	1,121.9	1,134.7	1,138.2	1,129.8	1,118.2	1,089.6	1,060.4	1,045.8	1,033.0	1,021.5	1,013.7	1,005.7	1,021.3	1,013.5	997.8

ATTACHMENT 2

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Calendar Year	2006	2007	2008	*Transaction*	*Lease Termination*	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unwind Allocation	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Pre-Transaction Allocation	1.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Transaction Index	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
																Transaction Closing Date:			*12/31/2008*	
I. Sales (TWH)																				
Rural	2.23	2.41	2.40	-		2.44	2.49	2.54	2.59	2.65	2.70	2.76	2.82	2.88	2.94	3.00	3.06	3.12	3.18	3.24
Large Industrial	*0.96*	*0.92*	*0.95*	-		*1.06*	*1.10*	*1.13*	*1.17*	*1.20*	*1.23*	*1.27*	*1.30*	*1.34*	*1.37*	*1.41*	*1.44*	*1.48*	*1.51*	*1.54*
Century	-	-	-	-		4.14	4.14	4.14	4.15	4.14	4.14	4.14	4.15	4.14	4.14	4.14	4.15	4.14	4.14	4.14
Alcan	-	-	-	-		3.16	3.16	3.16	3.17	3.16	3.16	3.16	3.17	3.16	3.16	3.16	3.17	3.16	3.16	3.16
Market	2.06	2.84	1.54	-		1.55	1.83	1.38	1.36	1.41	1.32	1.29	1.24	1.05	1.12	0.87	0.89	0.87	0.85	0.78
Total Sales	5.25	6.16	4.89	-		12.35	12.71	12.35	12.44	12.56	12.56	12.62	12.68	12.56	12.72	12.57	12.70	12.77	12.83	12.87

	Calendar Year	2006	2007	2008	Transaction	Lease Termination	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Unwind Allocation	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
	Pre-Transaction Allocation	1.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	Transaction Index	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
																	Transaction Closing Date:			12/31/2008	
69	Non-Smelter Member Blend																				
72	Base	35.26	35.15	35.09			35.45	35.42	35.39	35.36	35.33	35.31	35.28	35.26	35.24	35.21	35.20	35.18	35.16	35.14	35.13
73	MRDA	(1.15)	(1.11)	(1.10)			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
74	Regulatory Account Charge						-	-	(0.10)	(0.10)	(0.10)	0.42	0.41	0.40	0.41	0.40	0.39	1.52	1.48	1.45	1.59
75	GRA	-	-	-			-	-	-	-	-	-	-	-	3.55	3.55	3.54	3.54	3.54	3.54	3.56
76																					
77	FAC	-	-	-			11.23	12.76	13.94	16.33	18.27	12.10	9.82	9.91	9.96	10.31	10.56	10.95	10.96	11.52	11.46
78	Environmental Surcharge						2.19	2.42	3.15	3.24	3.27	3.48	5.36	5.37	5.36	5.58	5.52	5.80	5.95	6.03	6.21
79	Surcredit	-	-	-			(3.28)	(3.20)	(3.12)	(3.64)	(3.55)	(3.47)	(3.39)	(3.32)	(4.49)	(4.40)	(4.30)	(4.22)	(4.12)	(4.04)	(3.96)
80	Non-Smelter Member Economic Rese	-	-	-			(10.14)	(11.96)	(12.35)	(13.35)	-	-	-	-	-	-	-	-	-	-	-
81	Net						-	0.02	1.61	2.59	17.99	12.12	11.79	11.96	10.83	11.50	11.79	12.53	12.80	13.52	13.71
82																					
83	Pre TIER Rebate Total	34.11	34.04	33.99			35.45	35.44	36.90	37.85	53.23	47.85	47.49	47.63	50.02	50.66	50.92	52.77	52.98	53.65	53.99
84	TIER Related Rebate	-	-	-			(0.02)	(1.66)	-	-	-	-	-	-	-	-	-	-	-	-	-
85	*Effective Rate*	34.11	34.04	33.99			35.43	33.78	36.90	37.85	53.23	47.85	47.49	47.63	50.02	50.66	50.92	52.77	52.98	53.65	53.99
86																					
87	Smelters																				
88	Base Rate	-	-	-			28.15	28.15	28.15	28.11	28.15	28.15	28.15	28.11	30.96	30.96	30.96	30.92	30.96	30.96	30.98
89	TIER Adjustment	-	-	-			-	-	1.94	2.45	1.76	2.03	2.94	2.76	3.55	0.54	3.55	2.93	4.20	3.43	4.75
90	Smelter Rate Subject to Price Cap	-	-	-			28.15	28.15	30.09	30.56	29.91	30.18	31.09	30.87	34.51	31.50	34.51	33.85	35.16	34.40	35.73
91	FAC						11.23	12.76	13.94	16.33	18.27	12.10	9.82	9.91	9.96	10.31	10.56	10.95	10.96	11.52	11.46
92	PPA	-	-	-			0.08	(0.39)	0.48	0.27	0.57	0.26	0.44	0.58	2.09	0.88	1.78	1.15	2.07	1.74	2.54
93	Environmental Surcharge						2.19	2.42	3.15	3.24	3.27	3.48	5.36	5.37	5.36	5.58	5.52	5.80	5.95	6.03	6.21
94	Surcharge 1	-	-	-			0.70	0.70	0.70	1.00	1.00	1.00	1.00	1.00	1.40	1.40	1.40	1.39	1.40	1.40	1.40
95	Surcharge 2						0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	1.20	1.20	1.20	1.20	1.20	1.20	1.20
96	Smelter FAC Reserve						-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
97	TIER Related Rebate	-	-	-			(0.02)	(1.66)	-	-	-	-	-	-	-	-	-	-	-	-	-
98	Effective Rate	-	-	-			43.19	42.86	49.23	52.28	53.90	47.90	48.58	48.61	54.52	50.86	54.98	54.33	56.74	56.28	58.54
99																					
100	Market	40.45	52.68	57.33			60.94	59.20	63.59	66.81	70.55	62.13	63.43	63.52	64.53	66.02	68.95	67.21	67.69	69.01	69.79
101																					
102	Overall Blend	36.60	42.62	41.34			43.22	42.66	47.17	49.51	55.56	49.38	49.75	49.75	53.85	52.12	54.52	54.67	56.13	56.16	57.53
103																					

Calendar Year	2006	2007	2008	Transaction	Lease Termination	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unwind Allocation	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Pre-Transaction Allocation	1.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Transaction Index	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
																Transaction Closing Date:			12/31/2008	
III. Cash Flows (M$)																				
Operating Receipts																				
Rural	79.4	84.8	84.6	-	0.0	90.8	92.5	94.1	102.8	145.9	134.2	136.1	139.3	149.7	154.5	158.5	167.4	171.4	176.9	181.3
Large Industrial	29.3	28.5	29.2	-	0.0	33.4	34.4	35.6	39.5	59.2	54.3	55.3	57.0	61.3	63.8	65.8	70.0	72.1	74.8	77.1
Smelters	-	-	-	-	-	315.3	324.7	347.2	382.5	393.3	349.5	354.5	355.7	397.9	371.2	401.2	397.5	414.0	410.7	427.2
Offsystem	83.4	149.4	88.2	-	-	94.3	108.5	87.7	90.9	99.4	82.2	82.1	78.8	67.6	73.6	59.7	59.5	59.1	58.4	54.7
WKEC Lease	47.9	50.8	47.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission	6.0	6.3	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Smelter - Tier 3 Transmission	1.7	1.7	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on Sale of Allowances	-	-	-	-	-	3.8	3.0	(0.6)	(0.4)	(0.2)	(1.9)	(16.3)	(15.1)	(14.5)	(15.6)	(14.2)	(15.5)	(15.6)	(16.0)	(16.5)
Cobank Patronage Capital & Other	0.6	0.6	0.6	-	-	-	-	-	0.7	1.6	1.5	-	-	-	-	-	-	-	-	-
Lease Buyout					(71.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Earnings	3.7	6.8	5.0	-	0.0	6.5	5.2	5.3	5.9	3.7	2.8	3.6	3.3	3.2	3.0	3.0	3.4	3.4	3.4	3.4
Total Receipts	252.0	328.9	262.3	-	(71.3)	544.1	568.3	569.2	622.0	702.8	622.6	615.4	619.0	665.1	650.4	674.0	682.3	704.4	708.1	727.1
Operating Disbursements																				
PPA	98.0	96.3	95.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel Costs	-	-	-	-	0.0	270.6	304.9	307.9	344.6	370.3	259.1	259.3	262.0	261.0	267.6	268.7	275.7	277.5	286.7	285.8
SEPA & Other Purchases	11.4	68.0	11.6	-	0.0	23.1	17.9	28.1	25.7	29.7	25.8	28.2	30.1	48.9	34.0	45.0	37.4	49.3	45.3	55.8
Carbon Tax					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carbon Allowance Cost					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Environmental	0.4	0.5	0.6	-	(0.0)	30.8	33.7	38.3	39.9	40.9	41.8	51.4	53.0	52.9	55.3	55.3	58.1	60.4	61.4	63.3
Fixed O&M	-	-	-	-	0.0	101.3	93.3	105.0	104.9	106.0	102.3	111.8	108.5	129.6	113.5	129.3	123.8	133.5	128.7	137.0
Transmission O&M	6.6	7.1	7.4	-	0.0	8.0	8.3	8.5	8.8	9.0	9.3	9.6	9.9	10.2	10.5	10.8	11.1	11.4	11.8	12.1
APM, L/C, Cogen, CW & TVA Trans	4.7	8.8	5.9	-	0.0	6.3	6.5	5.8	5.7	5.9	6.0	6.2	6.4	6.6	6.8	7.0	7.2	7.4	7.6	7.8
A&G	13.8	15.6	17.2	-	0.0	29.5	27.8	29.2	29.5	30.3	31.7	32.1	33.0	34.3	35.1	36.0	37.5	38.2	39.5	40.9
Property Taxes & Insurance	2.4	2.3	2.2	-	0.0	6.9	7.1	7.8	8.5	8.8	9.1	9.3	9.6	9.9	10.2	10.5	10.8	11.1	11.5	11.8
Working Capital	6.8	4.6	(8.4)	-	(0.0)	(21.8)	(2.1)	(1.6)	(2.2)	1.7	4.7	0.1	(0.4)	(1.2)	0.6	(1.8)	(0.6)	(1.7)	(0.6)	(1.5)
PCB Restructuring	-	-	-	-	-	7.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2.3	1.9	2.0	-	(0.0)	(0.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	146.3	205.1	134.0	-	0.0	461.3	497.3	529.0	565.5	602.6	489.8	508.0	512.0	552.1	533.7	560.8	560.9	587.1	591.9	613.1
Operating Receipts less Disbursements	105.7	123.8	128.2	-	(71.3)	82.8	71.0	40.2	56.4	100.3	132.8	107.4	107.0	113.1	116.8	113.3	121.4	117.3	116.3	114.0

Pro Forma

September 2008

Calendar Year	2006	2007	2008	Transaction	Lease Termination	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unwind Allocation	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Pre-Transaction Allocation	1.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Transaction Index	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
																Transaction Closing Date:			12/31/2008	
Operating Receipts less Disbursements	105.7	123.8	128.2	-	(71.3)	82.8	71.0	40.2	56.4	100.3	132.8	107.4	107.0	113.1	116.8	113.3	121.4	117.3	116.3	114.0
Capital Expenditures																				
Generation	6.4	6.6	6.7	-	(0.0)	36.2	20.6	31.5	23.4	38.5	32.8	33.8	34.8	35.9	36.9	38.1	39.2	40.4	41.6	42.8
Transmission	5.9	9.6	14.4	-	-	10.3	5.3	4.4	5.9	0.5	0.4	0.5	1.6	2.8	3.4	3.5	3.6	3.7	3.8	3.9
Transmission Upgrades	-	4.1	0.3	-	-	5.3	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-
A&G	0.9	1.3	1.3	-	0.0	1.3	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.9	2.0	2.0
Extraordinary Generation	-	-	-	-	-	28.7	17.4	25.4	10.7	8.8	5.2	4.4	2.3	2.8	2.4	7.0	3.4	3.1	2.7	3.3
Other (HQ Building, IP)	-	-	-	-	0.0	11.4	1.0	0.9	0.8	0.8	1.0	0.8	0.8	1.0	0.9	0.9	1.1	0.9	0.9	1.2
Total Capital Expenditures	13.2	21.6	22.7	-	0.0	93.2	51.3	63.7	42.2	50.1	40.9	41.2	41.1	44.1	45.3	51.2	49.1	49.9	50.9	53.3
Income Taxes from Operations	0.4	0.2	0.4	-	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Net Pre-Finance Cash Flow	92.1	102.0	105.1	-	(71.3)	(10.3)	19.7	(23.5)	14.2	50.1	91.6	65.9	65.5	68.5	71.0	61.6	71.8	66.9	64.9	60.3
Financing																				
Principal (Net)	26.4	13.3	41.8	-	-	13.3	15.1	(55.5)	92.1	30.7	32.6	(171.8)	233.5	38.4	40.6	21.7	45.3	40.1	42.4	16.1
Interest	36.9	36.9	51.5	-	0.0	44.0	43.2	42.3	45.3	41.1	39.2	37.3	35.3	33.4	31.2	28.8	27.5	24.9	22.6	19.8
Financing Fees					-	-	-	1.2	-	-	-	6.8	-	-	-	-	-	-	-	-
Line of Credit	-	-	-	-	0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Aggregate Debt Service (incl. Line	63.4	50.2	93.3	-	0.0	57.7	58.8	(11.4)	137.9	72.3	72.3	(127.3)	269.3	72.3	72.3	51.0	73.3	65.5	65.5	36.4
Post-Finance Cash Flow	28.7	51.9	11.8	-	(71.3)	(68.1)	(39.1)	(12.1)	(123.7)	(22.2)	19.3	193.2	(203.8)	(3.7)	(1.3)	10.6	(1.5)	1.4	(0.6)	23.8
Unwind Transaction																				
Cash Proceeds	-			374.8																
Debt Reduction	-			(134.3)																
Misc. Transaction				(3.1)																
Net Before Member Reserves				237.5																
Non-Smelter Member Economic Rese	-			(157.0)	-	35.5	42.9	45.4	50.2	-	-	-	-	-	-	-	-	-	-	-
Smelter Fuel Payment				(7.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Before Transition Reserve				73.5	-	35.5	42.9	45.4	50.2	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balances (Incl. Transition Reserve)	96.5	148.3	160.2	233.6	162.3	129.7	133.5	166.8	93.3	71.1	90.4	283.6	79.8	76.1	74.8	85.4	83.9	85.4	84.8	108.6

Pro Forma **September 2008**

	Calendar Year	2006	2007	2008	Transaction	Lease Termination	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Unwind Allocation	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
	Pre-Transaction Allocation	1.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	Transaction Index	0.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
																	Transaction Closing Date:			12/31/2008	
176	**IV. Income Statement (M$)**																				
177																					
178	Revenues																				
179	Rural	79.4	84.76	84.6	-	0.0	90.7	88.3	98.3	102.8	145.9	134.2	136.1	139.3	149.7	154.5	158.5	167.4	171.4	176.9	181.3
180	Large Industrial	29.3	28.53	29.2	-	-	33.3	32.8	37.2	39.5	59.2	54.3	55.3	57.0	61.3	63.8	65.8	70.0	72.1	74.8	77.1
181	Smelters	-	-	-	-	-	315.2	312.8	359.3	382.5	393.3	349.5	354.5	355.7	397.9	371.2	401.2	397.5	414.0	410.7	427.2
182	Off-System	83.4	149.38	88.2	-	-	94.3	108.5	87.7	90.9	99.4	82.2	82.1	78.8	67.6	73.6	59.7	59.5	59.1	58.4	54.7
183	Transmission	6.0	6.29	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
184	Smelter - Tier 3 Transmission	1.8	1.80	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
185	Gain on Sale of Allowances	-	-	-	-	-	3.8	3.0	(0.6)	(0.4)	(0.2)	(1.9)	(16.3)	(15.1)	(14.5)	(15.6)	(14.2)	(15.5)	(15.6)	(16.0)	(16.5)
186	WKEC Lease (Net)	52.3	52.33	52.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
187	Lease Buyout					(31.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
188	Interest Earnings	3.7	6.83	5.0	-	0.0	6.5	5.2	5.3	5.9	3.7	2.8	3.6	3.3	3.2	3.0	3.0	3.4	3.4	3.4	3.4
189	Total Revenues	255.9	329.92	266.3	-	(31.0)	543.9	550.6	587.2	621.3	701.3	621.1	615.4	619.0	665.1	650.4	674.0	682.3	704.4	708.1	727.1
190																					
191	Expenses																				
192	PPA	98.0	96.29	95.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
193	Fuel Costs	-	-	-	-	0.0	270.9	298.5	304.5	336.4	364.0	286.6	259.2	261.6	259.8	267.5	267.5	275.1	276.8	285.4	285.4
194	SEPA & Other Purchases	11.4	68.01	11.61	-	0.0	22.8	19.3	25.9	24.3	27.1	26.5	28.1	29.4	41.7	31.9	38.8	39.1	46.6	44.0	51.3
195	Carbon Tax					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
196	Carbon Allowance Cost					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
197	Non-Fuel Variable Production O&M	0.4	0.48	0.6	-	(0.0)	30.8	33.7	38.3	39.9	40.9	41.8	51.4	53.0	52.9	55.3	55.3	58.1	60.4	61.4	63.3
198	Fixed Production O&M	-	-	-	-	0.0	101.3	93.3	105.0	104.9	106.0	102.3	111.8	108.5	129.6	113.5	129.3	123.8	133.5	128.7	137.0
199	Transmission O&M	6.6	7.07	7.4	-	0.0	8.0	8.3	8.5	8.8	9.0	9.3	9.6	9.9	10.2	10.5	10.8	11.1	11.4	11.8	12.1
200	APM, L/C, Cogen, CW & TVA Trans	4.7	8.78	5.9	-	0.0	6.3	6.5	5.8	5.7	5.9	6.0	6.2	6.4	6.6	6.8	7.0	7.2	7.4	7.6	7.8
201	A&G	13.8	15.62	17.2	-	0.0	29.5	27.8	29.2	29.5	30.3	31.7	32.1	33.0	34.3	35.1	36.0	37.5	38.2	39.5	40.9
202	Property Taxes & Insurance	2.4	2.32	2.2	-	0.0	6.9	7.1	7.8	8.5	8.8	9.1	9.3	9.6	9.9	10.2	10.5	10.8	11.1	11.5	11.8
203	Depreciation & Amortization	32.0	32.15	32.5	-	0.0	34.3	35.5	44.6	46.0	46.0	46.3	47.9	49.4	63.5	64.8	66.2	67.7	69.1	70.5	72.0
204	Income Tax	-	-	-	-	-	-	-	-	-	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8
205	Interest Expense (Incl. Financing Fee:	60.7	60.90	63.5	-	0.0	53.9	49.7	49.2	52.6	48.8	47.4	45.9	44.6	43.2	41.6	39.8	39.2	37.4	35.6	33.6
206	RUS Note & PCB Restructuring Char	-	-	-	-	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
207	Net Sale-Leaseback	(2.6)	(2.56)	(3.4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
208	Other - Net	(6.0)	(6.32)	(6.6)	-	(0.0)	(0.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
209	Total Expenses	221.4	282.74	226.5	-	(0.0)	564.9	579.9	619.2	657.1	687.8	608.0	602.5	606.3	652.8	638.4	662.3	670.6	693.1	697.2	716.5
210																					
211	Unwind Transaction	-	-	-	690.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
212																					
213	Non-Smelter Member Economic Reserv	-	-	-	(157.0)	-	35.5	42.9	45.4	50.2	-	-	-	-	-	-	-	-	-	-	-
214																					
215	Smelter FAC Payment	-	-	-	(7.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
216																					
217	Net Margin	34.5	47.18	39.9	526.8	(31.0)	14.4	13.5	13.4	14.3	13.5	13.2	12.9	12.6	12.4	12.1	11.7	11.7	11.3	11.0	10.6

ATTACHMENT 3

Non-Smelter Member Rates [9/23/08]:

Rate Impact Analysis ($/ MWh)

1. Non-Smelter Members

1	*December Close/ $72.5m Buyout*	47.59
2	MRDA Continued	(0.89)
3	GRA	0.33
4	Regulatory Account	-
5		
6	FAC	-
7	Environmental Surcharge	-
8	Surcharge Credit	-
9	Rebate Realized	0.01
10	Economic Reserve/ MRSM	0.00
11	*Net*	0.01
12		
13	*Overall Change*	(0.55)
14	*December Close/ No PMCC Buyout*	47.03

Smelter Rates [9/23/08]:

Rate Impact Analysis ($/ MWh)

2. Smelters

1	*December Close/ $72.5m Buyout*	51.52
2	MRDA Continued	(0.71)
3	GRA	0.26
4	TIER Adjustment	(0.00)
5	FAC	-
6	Smelter Economic Reserve	-
7	Environmental Surcharge	-
8	Power Purchases	-
9	Surcharge	-
10	TIER Related Rebate	0.01
11	*Overall Change*	(0.45)
12	*December Close/ No PMCC Buyout*	51.07

Attachment 3

Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

June 27, 2008

**VIA FACSIMILE (270/683-6694)
AND U.S. MAIL**

Mr. James M. Miller
Sullivan, Mountjoy, Stainback & Miller
Post Office Box 727
Owensboro, Kentucky 42302-0727

Re: Application of Big Rivers Electric Corporation
Case No. 2007-00455
Request for Staff Advisory Opinion

Dear Mr. Miller:

On June 26, 2008, you filed in the record of the above-referenced case on behalf of your client, Big Rivers Electric Corporation, a letter dated June 24, 2008 requesting a Staff Advisory Opinion on the issue of whether or not approval is required from the Commission for Big Rivers to terminate a leveraged lease of its D. B. Wilson Unit 1 ("Wilson Unit") that was entered into with Bank of America Leasing Corporation ("BkA") in 2000. Attached to your letter are: 1) an affidavit of C. William Blackburn, V.P. Financial Services, CFO, and Interim V.P. Power Supply for Big Rivers; 2) an unsigned letter agreement dated June 24, 2008 between E.ON U.S. LLC and Big Rivers regarding the conditions under which Big Rivers may have to pay $1 million toward the consideration of the BkA lease termination ("Reimbursement Agreement"); and 3) an unsigned letter agreement dated June 24, 2008 among E.ON, Big Rivers, Alcan Primary Products Corporation ("Alcan") and Century Aluminum of Kentucky, General Partnership ("Century") regarding the sharing of costs to terminate the BkA lease ("Cost Share Agreement").

Staff notes at the outset that the issue of terminating the BkA leveraged lease has been raised and discussed among the parties to Big Rivers Case No. 2007-00455 for over a week now, as evidenced by the following:

1. Letter dated June 18, 2008 filed jointly by Big Rivers and the E.ON Parties in the above-referenced case, explaining the decision to terminate the BkA leveraged lease, the financial benefits of closing the termination by June 30, 2008, the impact of such termination, and the legal conclusion of the authors that no Commission approval is required to terminate the lease.

2. June 19, 2008 informal conference among all parties to the above-referenced case at which the June 18, 2008 letter was distributed and discussed.

3. June 26, 2008 informal telephone conference among all parties during which a discussion was held on Big Rivers' June 24, 2008 letter requesting a Staff Advisory Opinion, and during which all parties agreed that Commission approval is not needed to terminate the BkA leveraged lease based on the representations that Big Rivers would incur no additional risks as a result of the termination.

Big Rivers now proposes to terminate the BkA lease to take advantage of favorable financial terms which are available only if the termination is closed by June 30, 2008. Pursuant to the terms of the Cost Share Agreement, Big Rivers will be responsible for $1 million of the termination cost, with Alcan and Century being jointly responsible for $1 million and E.ON being responsible for the balance. As discussed in the Blackburn affidavit, the BkA lease transaction is supported by credit enhancements from Ambac Assurance Corporation ("Ambac"), whose financial rating was downgraded by Moody's Investment Service on June 20, 2008. Due to this downgrade, Big Rivers will be obligated to replace the Ambac credit enhancements with those of a higher-rated financial entity unless the lease is terminated. By terminating the lease now, the risks and costs associated with securing a substitute financial entity will be eliminated, and there will be no new risks created for Big Rivers, whether or not the Commission approves the unwind of the 1998 lease between Big Rivers and E.ON as requested in Case No. 2007-00455 ("Unwind Transaction").

Under the terms of the Reimbursement Agreement, Big Rivers' obligation to reimburse E.ON $1 million of the BkA lease termination closing costs will be payable only if the Commission approves both the payment and the Unwind Transaction, and the Unwind Transaction closes. The termination of the BkA lease, as now proposed, will not involve the issuance of any new evidences of indebtedness by Big Rivers.

As your letter points out, in Case No. 1999-00450, the Commission asserted jurisdiction over the lease of the Wilson Unit to BkA based on the provisions of the lease that required Big Rivers to issue notes to evidence its indebtedness under the lease and enter into a mortgage agreement to secure the payment thereof. The issuance of notes and mortgages, which are evidences of indebtedness, were found to be within the ambit of KRS 278.300(1), which provides that:

> No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission.

In a subsequent Order issued in that case on January 28, 2000, the Commission also found that the leasing of the Wilson Unit, with an immediate leaseback to Big Rivers, did not constitute a change in control and, consequently, no Commission approvals were required under the change in control statutes, now codified as KRS 278.020(5) and (6).

The proposed BkA lease termination will not require Big Rivers to issue any new evidences of indebtedness. To the contrary, Big Rivers will be retiring existing evidences of indebtedness, and such retirement does not require Commission approval under KRS 278.300 or any other provision of KRS Chapter 278. While Big Rivers will be potentially obligated to reimburse E.ON $1 million of the termination costs, that obligation is expressly conditioned upon Commission review and approval. Thus, even assuming that this contingent obligation constitutes an evidence of indebtedness, the obligation to pay will not become unconditional and enforceable unless and until approved by the Commission.

As set forth above, when Big Rivers entered into the BkA lease, the Commission expressly found that there would be no change in control of Big Rivers or its assets that required approval under KRS Chapter 278. Since no control ever passed from Big Rivers under the BkA lease, the termination of that lease will not now result in a change of control of Big Rivers as a utility or of its assets that would require approval under KRS 278.020(5) or (6), or under 278.218, respectively.

Based on a review of the unique facts set forth in the above-described letters, which are adopted and incorporated herein, the Commission's Orders in Case No. 1999-00450 approving the BkA lease, and an analysis of the applicable statutes, the Staff concludes that no Commission approvals are required for Big Rivers to terminate the BkA lease transaction. This opinion is specifically based on: (1) the representation in your June 24, 2008 letter that the early termination of this lease "is entirely without risk to Big Rivers and, indeed, is very beneficial to Big Rivers;" and (2) the signing of the Reimbursement Agreement and the Cost Share Agreement by the time of closing in substantially the same form as attached to your June 24, 2008 letter.

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and is not binding on the Commission in either the proceeding referenced in your letter or in any other proceeding. As your request relates to a case that is ongoing, a copy of this Advisory Opinion will be filed in the record of that case and served on all parties of record. Questions concerning this opinion should be directed to Richard Raff at 502-564-3940, Extension 263.

Sincerely,

David S. Samford
General Counsel

RGR:v

cc: Parties of Record in Case No. 2007-00455

SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC
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C. Ellsworth Mountjoy
Susan Montalvo-Gesser

June 24, 2008

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***The Application of Big Rivers El... on for: (i) Approval of Wholesale Tariff Addition ... ion, (ii) Approval of Transactions, (... f Indebtedness, and (iv) Approval of Amendments ... LLC, Western Kentucky Energy Corp., and LG& ... proval of Transactions***
Case No. 2007-...

Original

Dear Ms. Stumbo:

This letter is to request a written advisory opinion from Public Service Commission ("Commission") Staff that no Commission approval is required for the termination of the leveraged leases of Big Rivers Electric Corporation ("Big Rivers") with Bank of America Leasing Corporation ("Bank of America") under the terms and conditions described in the letter sent to you on June 18, 2008, from counsel for Big Rivers and E.ON U.S. LLC ("E.ON U.S."), Western Kentucky Energy Corporation, and LG&E Marketing, Inc. (collectively, the "Joint Applicants"). The leases are proposed to be terminated on June 30, 2008. An expedited response to this request is sought because, as noted below, this opinion is required in connection with an opportunity that must be accepted within the next two days, and closed by the end of the month.

The original leveraged lease transaction required approval of the Commission because Big Rivers issued new evidences of indebtedness, and amended an existing mortgage and issued a new mortgage to secure Big Rivers' obligations under the leveraged lease transaction.[1] But no Commission approval is required to *terminate* the Bank of America leases. Terminating the Bank of America leases does not require Big Rivers to "issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person . . . ." KRS 278.300(1). Entering into the leveraged leases did not constitute a change in control of Big Rivers or of the leased units under KRS 278.020(4) or (5), so terminating the leases and reverting those rights to Big Rivers is not a change of control under those statutes.[2] And if there is no "change of control," no approval is required under KRS

[1] See, order dated November 24, 1999, in *Big Rivers Electric Corporation's Application for Approval of a Leveraged Lease of Three Generating Units*, P.S.C. Case No. 99-450, page 10.

[2] See, order dated January 28, 2000, in *Big Rivers Electric Corporation's Application for Approval of a Leveraged Lease of Three Generating Units*, P.S.C. Case No. 99-450, page 3.

Telephone (270) 926-4000
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PO Box 727
Owensboro, Kentucky
42302-0727

278.218. No term in the leveraged leases prohibits termination of the leases as contemplated by Big Rivers[3].

The effect on Big Rivers of termination of the Bank of America leveraged leases is positive, whether or not the "unwind transaction" occurs. Under either scenario, Big Rivers is relieved of the risks, complexities and complications of the Bank of America leases, and termination eliminates any issues under the Bank of America leases resulting from the downgrading of the rating of Ambac Assurance Corporation ("Ambac"), which is a party integral to the leases. The downgrading of Ambac's rating by Moody's Investment Service on June 20, 2008, requires Big Rivers to replace Ambac as a credit enhancer in its leveraged leases, including the Bank of America leases.

Whether or not the unwind transaction occurs does not change the effect on Big Rivers of termination of the Bank of America leases, as reflected on its GAAP books or tax books. Whether or not the unwind transaction occurs, Big Rivers would amortize the gain in its financial statements over the original life of the Bank of America lease, as discussed at the June 19, 2008, informal conference in this matter. Regardless of the circumstances under which the lease termination occurs, Big Rivers benefits compared with the status quo.

Accordingly, Big Rivers withdraws, as inapplicable and moot, its prior requests that Big Rivers be authorized to enter into (i) a letter agreement to terminate the Bank of America leases (paragraph 4 of Big Rivers' Third Amendment and Supplement to Application dated April 23, 2008), (ii) the Bank of America Termination Agreement (Exhibit 4, Motion to Amend and Supplement Application dated June 11, 2008), and (iii) the Bank of America Cost Share Agreement, in its current form (Exhibit 5, Motion to Amend and Supplement Application dated June 11, 2008). Big Rivers sought approval for these documents even though the need for Commission approval to terminate the Bank of America leases was questionable. This was consistent with the Joint Applicants' approach to this case of placing before the Commission all agreements and documents related to the proposed transaction to which Big Rivers is a party without specifically parsing the law relevant to whether Commission approval of each document is mandated by law. That approach works when timing is not an issue; timing has now become a serious problem.

---

[3] See, Affidavit of C William Blackburn, attached.

Big Rivers files with this letter a replacement for the Bank of America Cost Share Agreement that provides for E.ON U.S. to pay the cost of the early termination of the Bank of America lease (after the funding of certain portions of those costs by Big Rivers and others, using proceeds of various investment contracts and financial products established at the time of the leveraged lease transactions for that purpose), with no commitment on the part of Big Rivers to reimburse E.ON U.S. any of those costs. Big Rivers does not believe this agreement requires Commission approval, for the reasons stated above. These changes to the cost share arrangements surrounding the Bank of America lease early termination are designed to eliminate potential issues to the early termination that the Attorney General identified earlier today by e-mail message to counsel in Case No. 2007-00455.

Big Rivers further files with this letter a new Letter Agreement with E.ON U.S. This Letter Agreement obligates Big Rivers to reimburse E.ON U.S. $1 million of the early termination costs, but the obligation of Big Rivers to make this reimbursement is not effective without Commission review and approval, and closing of the unwind transaction.

As the June 18 letter explains, and as the parties to this case discussed at the informal conference on June 19, the cost of terminating these leases will rise precipitously after June 30, 2008. Ultimately, if the unwind transaction closes that cost is proposed to be borne by Big Rivers[4], E.ON. U.S., and the two smelter customers under the terms of the revised Bank of America Cost Share Agreement (the "Cost Share Agreement"), attached to this letter. Under the circumstances, early termination of the leases is entirely without risk to Big Rivers and, indeed, is very beneficial to Big Rivers.

So that the leases may be terminated prior to June 30, 2008, Big Rivers requests a written advisory opinion at Staff's earliest convenience that no Commission approval is required for the termination of the leveraged leases of Big Rivers with Bank of America under the circumstances. Counsel for Bank of America has advised that if an order is entered making a determination that the Commission does not have jurisdiction in this instance, Bank of America cannot close the lease termination transaction until the thirty-three day appeal period has expired. To allow the parties to close by June 30, 2008, Big

[4] If the unwind transaction closes, Big Rivers' total obligation to Bank of America for terminating the leases (in addition to the payments and investment contract proceeds delivered by Big Rivers at the time of the termination) is capped at $1 million, plus a one-third share of certain transaction costs of Bank of America. If the leases are terminated and the unwind transaction does not close, Big Rivers would not owe that $1 million amount or those transaction costs.

Rivers is requesting the Commission Staff to provide a written advisory opinion on this issue, and requesting the Commission not to enter an order.

Sincerely yours,

James M. Miller

James M. Miller
Counsel to Big Rivers Electric Corporation

Attachments
c: Richard Raff, Esq.
All Parties

Commonwealth of Kentucky)
)
County of Henderson)

AFFIDAVIT OF C. WILLIAM BLACKBURN

Comes the affiant, C. William Blackburn, and after first being duly sworn states and affirms as follows:

1. He is the same C. William Blackburn who is a witness in the pending Kentucky Public Service Commission Case No. 2007-00455.

2. The effect on Big Rivers Electric Corporation ("Big Rivers") of termination of the Bank of America leveraged leases is positive, whether or not the "unwind transaction" occurs. Under either scenario, Big Rivers no longer must deal with the risks, complexity and complications of the Bank of America leases, and termination of the leases eliminates any issues under the Bank of America leases resulting from the downgrading of the rating of Ambac Assurance Corporation ("Ambac"), which is a party integral to the leases. The downgrading of Ambac's rating by Moody's Investment Service on June 20, 2008, requires Big Rivers to replace Ambac as a credit enhancer in its leveraged leases, including the Bank of America leases.

3. Whether or not the unwind transaction occurs does not change the effect on Big Rivers of *termination of the Bank of America* leases, as reflected on its GAAP books or tax books. Whether or not the unwind transaction occurs, Big Rivers would amortize the gain in its financial

statements over the original life of the Bank of America lease, as discussed at the June 19, 2008, informal conference in this matter. Regardless of the circumstances under which the lease termination occurs, Big Rivers benefits compared with the status quo.

4. The cost of terminating these leases will rise precipitously after June 30, 2008. Ultimately that cost is proposed to be borne in part by Big Rivers under the terms of the Letter Agreement, attached to the letter dated June 24, 2008, from James M. Miller to Stephanie Stumbo, to which this affidavit is attached. That Letter Agreement obligates Big Rivers to reimburse E.ON $1 million of the early termination costs, plus a one-third share of certain transaction costs of Bank of America (in addition to the payments and investment contract proceeds delivered by Big Rivers at the time of the termination). But the obligation of Big Rivers to make this reimbursement is not effective without Commission review and approval, and closing of the unwind transaction.

5. Big Rivers' obligations under the revised Cost Share Agreement do not include reimbursement of the $1 million in early termination costs and Big Rivers' share of the transaction costs.

6. Under the circumstances, early termination of the leases is entirely without risk to Big Rivers and, indeed, is very beneficial to Big Rivers.

Further the affiant sayeth not, on this the 24th day of June, 2008.

____

C. William Blackburn

Subscribed and sworn to before me by C. William Blackburn on this the 24th day of June, 2008.

____

Notary Public, Kentucky State-at-Large

My Commission Expires: ____________

E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202

June 24, 2008

Big Rivers Electric Corporation
P.O. Box 24
Henderson, Kentucky 42419-0024
Attn: President & CEO

Subject: Payment Regarding the Buy-Out of The Bank of America

Gentlemen:

Reference is made to that certain letter agreement dated June 24, 2008 (the "Cost Share Agreement"), among Big Rivers Electric Corporation ("Big Rivers"), Alcan Primary Products Corporation, Century Aluminum of Kentucky General Partnership and E.ON U.S. LLC ("E.ON U.S."), pursuant to which, among other transactions, those parties agreed to fund certain costs and expenses associated with the termination of certain lease transactions and associated rights and obligations among Big Rivers, The Bank of America Leasing Corporation (and/or certain of its affiliates) and other parties (the "BofA Transactions"). Capitalized terms used but not defined in this letter agreement shall have their same respective meanings as in the Cost Share Agreement.

For and in consideration of the agreement of E.ON U.S., pursuant to the Cost Share Agreement, to contribute certain amounts toward the Lessor Consideration at the BofA Closing, which contribution will provide a material benefit to Big Rivers, Big Rivers hereby agrees to remit and pay to E.ON U.S. in immediately available funds, without set-off or deduction, the amount of ONE MILLION DOLLARS ($1,000,000.00), upon the later to occur of (but not before): (a) the "Closing" contemplated in that certain Transaction Termination Agreement dated as of March 26, 2007, as amended, among Big Rivers, Western Kentucky Energy Corp. and LG&E Energy Marketing Inc.; or (b) the approval of that $1,000,000.00 payment by Big Rivers to E.ON U.S. pursuant to this letter agreement issued by the Kentucky Public Service Commission (the "KPSC"). The parties acknowledge that the foregoing payment by Big Rivers (if and when it is made) is intended to defray certain of the costs and expenses that are to be incurred by E.ON U.S. pursuant to the Cost Share Agreement.

Big Rivers further agrees to use its reasonable best efforts, from and after the date hereof, to seek and secure the KPSC approval contemplated in Subclause (b) of the preceding paragraph at the earliest practicable time following the date hereof, at Big Rivers' sole cost and expense.

Lastly, this letter (which is also being delivered to the Smelters on the date hereof) shall constitute the Election Notice of E.ON U.S. to Big Rivers and the Smelters contemplated in Section 5 of the Cost Share Agreement, provided the BofA Closing occurs on or before June 30, 2008, it being understood and agreed that this Election Notice shall become null and void and of no further force or effect *ab initio* in the event the BofA Closing has not occurred on or before June 30, 2008, and it shall thereafter create no obligations on the part of E.ON U.S., whether pursuant to the Cost Share Agreement or otherwise.

This letter agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Kentucky, without regard to the conflict of laws rules or principles of that state.

If the foregoing is consistent with our agreement, please execute a copy of this letter in the space provided below and return it to the undersigned. Thank you.

E.ON U.S. LLC

By: ______________________________
Paul W. Thompson
Senior Vice President – Energy Services

ACCEPTED AND AGREED TO:

BIG RIVERS ELECTRIC CORPORATION

By: ______________________________
Michael Core, President & CEO

cc: Alcan Primary Products Corporation
P.O. Box 44
Henderson, Kentucky 42419
Attn: Plant Manager, Sebree Smelter

Century Aluminum of Kentucky General Partnership
Hawesville Plant
P.O. Box 500
1627 State Route 271 North
Hawesville, Kentucky 42348
Attn: Plant Manager

LOU: 2847882-2

E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202

June 24, 2008

Big Rivers Electric Corporation
P.O. Box 24
Henderson, Kentucky 42419-0024
Attn: President & CEO

Alcan Primary Products Corporation
P.O. Box 44
Henderson, Kentucky 42419
Attn: Plant Manager, Sebree Smelter

Century Aluminum of Kentucky General Partnership
Hawesville Plant
P.O. Box 500
1627 State Route 271 North
Hawesville, Kentucky 42348
Attn: Plant Manager

Subject: Funding of Certain Amounts to be Paid to The Bank of America

Gentlemen:

Reference is made to (a) that certain letter agreement dated February 9, 2007, among Big Rivers Electric Corporation ("Big Rivers"), Alcan Primary Products Corporation ("Alcan"), Century Aluminum of Kentucky General Partnership ("Century" and, together with Alcan, the "Smelters") and E.ON U.S. LLC ("E.ON U.S."), pursuant to which, among other transactions, those parties agreed to jointly fund certain consent fees or the like that may become payable to certain other parties, upon the terms and subject to the conditions set forth therein (the "Joint Fee Sharing Agreement"), and (b) that certain letter agreement dated February 9, 2007, among Big Rivers, Alcan, Century and E.ON U.S., pursuant to which, among other transactions, those parties agreed to jointly fund certain transaction costs that may become payable or reimbursable to certain other parties, upon the terms and subject to the conditions set forth therein (the "Joint Cost Sharing Agreement").

Reference is also made to (a) that certain letter agreement dated April 18, 2008 (the "April 18 Letter"), between Big Rivers and Bank of America Leasing Corporation ("BofA"), pursuant to which Big Rivers agreed to purchase from BofA certain undivided beneficial trust interests related to certain defeased lease transactions (collectively, the "BofA Lease Transaction"), and (b) the proposed Omnibus Termination Agreement, draft dated May 27, 2008 (as finally negotiated and executed by the parties thereto, the "Termination Agreement"), among Big Rivers, Big Rivers Leasing Corporation, FBR-1 Statutory Trust, FBR-2 Statutory Trust, BofA, AME Investments, LLC, CoBank, ACB ("CoBank"), AME Asset Funding, LLC, U.S. Bank National Association, AIG Matched Funding Corp., Ambac Credit Products, LLC, and Ambac Assurance Corporation. Capitalized terms used but not defined in this letter shall have the meanings given in the Termination Agreement.

The parties desire to enter into this letter agreement to evidence their agreements with respect to the funding of the Lessor Consideration and certain transaction costs payable by Big Rivers under the Termination Agreement.

In consideration of the foregoing and their respective covenants and agreements set forth herein, the parties hereto agree as follows, effective as of the date first written above:

1. Notwithstanding anything to the contrary set forth therein, the parties hereto acknowledge and agree that the Lessor Consideration shall constitute neither "Fees" under and as defined in the Joint Fee Sharing Agreement nor "Transaction Costs" under and as defined in the Joint Cost Sharing Agreement.

2. The parties hereto shall contribute towards the Lessor Consideration (net of the proceeds referred to in Section 3 below), at the time contemplated below (but not before) as follows: Big Rivers shall contribute the Series B Prepayment Amount; the Smelters shall jointly contribute $1,000,000; and E.ON U.S. shall contribute the balance.

The maximum $1,000,000 increment to be funded jointly by the Smelters will be allocated between them on a basis satisfactory to them and reflected in a separate agreement between them. Each party's commitment would be to fund its respective share of the Lessor Consideration at the time of the closing of the transactions contemplated by the Termination Agreement, the conditions to such closing being governed by such agreement; provided, that in the event those transactions under the Termination Agreement are to close prior to the closing of the transactions contemplated by the Transaction Termination Agreement dated as of March 26, 2007, as amended, among Big Rivers, Western Kentucky Energy Corp. and LG&E Energy Marketing Inc. (the "Transaction Termination Agreement"), other than as a result of an election by E.ON U.S. to deliver an Election Notice (as defined below) pursuant to Section 5 of this letter agreement, E.ON

U.S. shall have the right and option, exercisable in its sole discretion at any time (whether before or following the closing of the transactions contemplated by the Termination Agreement), to delay the funding of its respective share of the Lessor Consideration until the closing contemplated by the Transaction Termination Agreement, and in such event the funding obligation of E.ON U.S. shall not accrue under this letter agreement until such time as either that closing under the Transaction Termination Agreement has occurred or E.ON U.S. has elected to tender delivery of its respective share of the Lessor Consideration, whichever is earlier. Except as otherwise provided in Section 5 below, no party would be obligated to first fund any portion of its commitment unless and until the other parties fund their respective share at the same time.

3. The specific amount of the funding commitment of E.ON U.S. hereunder will be such amount as may be determined by Big Rivers and E.ON U.S. on the basis of the final terms and conditions of the Termination Agreement agreed to by them in writing, after taking into account the contributions of Big Rivers and the Smelters contemplated in Section 2 above, and the liquidation, sale, application and netting against the Lessor Consideration of all proceeds received by Big Rivers or its designee or paid on behalf of Big Rivers to any Lease Transaction Parties in respect of the termination, liquidation or sale (as applicable) of the Payment Agreements and the Funding Agreements; provided, that the funding commitment of E.ON U.S. hereunder shall be further conditioned on (a) the application of the Payment Termination Amount under each Payment Agreement and the application of the Series B Prepayment Amount at the closing contemplated by the Termination Agreement in the manner contemplated in that agreement and (b) the termination and/or liquidation of the Funding Agreements in full and the application of all proceeds of that termination and/or liquidation toward the payment of the Lessor Consideration at that closing. Big Rivers will keep E.ON U.S. and the Smelters reasonably apprised of the status and final negotiation of the terms and conditions of the Termination Agreement and will provide appropriate documentation detailing the Lessor Consideration prior to the closing of the transactions contemplated by the Termination Agreement.

4. Upon the closing of the transactions contemplated by the Termination Agreement, the government securities pledged under the Government Securities Pledge Agreements, together with any proceeds from the sale or other disposition thereof, shall be the sole property of Big Rivers.

5. E.ON U.S. will have the right and option, exercisable by it at any time by written notice delivered to Big Rivers and the Smelters at their addresses set forth above (an "Election Notice"), to elect to cause the closing of the transactions contemplated by the

Termination Agreement (the "BofA Closing") to occur prior to the closing of the transactions contemplated by the Transaction Termination Agreement (the "Unwind Closing"), on the terms and conditions set forth in this Section 5. In the event an Election Notice is delivered by E.ON U.S. to Big Rivers and the Smelters as contemplated above, each of Big Rivers and E.ON U.S. will cooperate with one another and use their respective reasonable best efforts to cause the BofA Closing to occur as soon as practicable following the date of that notice, upon the terms and subject to the conditions set forth in the Termination Agreement to be agreed upon by Big Rivers and E.ON U.S. as contemplated above. Notwithstanding anything contained in this letter agreement to the contrary, in the event the BofA Closing shall occur (pursuant to that agreed Termination Agreement) following the delivery of an Election Notice but prior to the Unwind Closing (or an earlier termination of this letter agreement as contemplated below), E.ON U.S. agrees to initially contribute toward the BofA Closing the full amount of the Lessor Consideration contemplated in Section 2 of this letter agreement (that is, net of the proceeds referred to in Section 3 above) other than the Series B Prepayment Amount (which Big Rivers agrees to contribute at that BofA Closing), including the $1,000,000.00 contribution from the Smelters described in that Section 2, as well as all related "Transaction Costs" (as defined in the Joint Cost Sharing Agreement) that are payable by Big Rivers to one or more of the Lease Transaction Parties under Section 5 of the Termination Agreement (exclusive of the Lessor Consideration). Thereafter, in the event the Unwind Closing shall occur: (a) the Smelters jointly agree to remit and pay to E.ON U.S. at the Unwind Closing the amount of $1,000,000 in immediately available funds, representing the Smelters' collective contribution toward the Lessor Consideration as contemplated in that Section 2, and (b) all such "Transaction Costs" shall be subject to reimbursement in accordance with the Joint Cost Sharing Agreement. In the event the BofA Closing occurs following the delivery of an Election Notice but prior to the Unwind Closing as contemplated herein, then unless and until the Unwind Closing thereafter occurs, Big Rivers and the Smelters shall have no obligation to pay or reimburse E.ON U.S. for any portion of the Lessor Consideration (other than the application by Big Rivers of the proceeds described in Section 3 above that are within its possession or control, and other than the contribution by Big Rivers of the Series B Prepayment Amount as contemplated below) or such "Transaction Costs" contributed by E.ON U.S. at the BofA Closing.

6. The Joint Fee Sharing Agreement and the Joint Cost Sharing Agreement shall continue in full force and effect from and after the execution of this letter agreement in accordance with their respective terms. This letter agreement shall not be deemed to amend, modify or supplement the Joint Fee Sharing Agreement or the Joint Cost Sharing Agreement. For the avoidance of doubt, the parties hereto agree that, except as otherwise

provided in Section 5 above, fees and expenses (exclusive of the Lessor Consideration) incurred by the Lease Transaction Parties payable or paid by Big Rivers pursuant to Section 5 of the Termination Agreement shall constitute "Transaction Costs" subject to shared contribution under and in accordance with the Joint Cost Sharing Agreement, but shall not constitute costs or expenses that are recoverable by Big Rivers from E.ON. U.S. or any of its affiliates or subsidiaries pursuant to any other agreement(s)) between or among those parties. In addition, Big Rivers agrees that its respective share of the Lessor Consideration paid or payable by it under this letter agreement or the Termination Agreement (including the Series B Prepayment Amount) shall not be a cost or expense recoverable by Big Rivers under any other agreement(s) between or among Big Rivers, E.ON U.S. or any of its affiliates or subsidiaries.

7. It is acknowledged and agreed by the parties hereto that the final Termination Agreement may contain modifications or other changes to the defined terms used herein and the provisions applicable with respect thereto. The parties agree that no such modification(s) shall be deemed to modify this letter agreement absent the written agreement of the parties to such modification(s), and further agree that, to the extent any such modification or other change to the Termination Agreement requires an amendment or supplement to this letter agreement, the parties shall cooperate in good faith to negotiate and execute such amendment or supplement in order to sustain the intent of the parties as expressed herein.

8. Notwithstanding anything to the contrary set forth in this letter agreement, this letter agreement shall become null and void and of no further force or effect, without notice or further action on the part of any party, in the event the Transaction Termination Agreement shall be terminated in accordance with its terms at any time prior to the time at which E.ON U.S. shall have an unconditional obligation to fund its respective share of the Lessor Consideration pursuant to this letter agreement.

9. This letter agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Kentucky, without regard to the conflict of laws rules or principles of that state.

[Signature page follows.]

If the foregoing is consistent with our agreement, please execute a copy of this letter in the space provided below and return it to the undersigned. Thank you.

E.ON U.S. LLC

By: ______________________________
Paul W. Thompson
Senior Vice President – Energy Services

ACCEPTED AND AGREED TO:

BIG RIVERS ELECTRIC CORPORATION

By: ______________________________
Michael Core, President & CEO

ALCAN PRIMARY PRODUCTS CORPORATION

By: ______________________________
Y'von d'Anjou, President

CENTURY ALUMINUM OF KENTUCKY GENERAL PARTNERSHIP

By: ______________________________
E. Jack Gates, President

LOU: 2847444-2

From: Jim Miller [jmiller@smsmlaw.com]

Sent: Saturday, September 27, 2008 3:42 PM

To: Paula Mitchell; uecinc@att.net

Subject: FW: Big Rivers Electric Case No. 2007-00455

Attachments: Revised Blackburn Affidavit Attachment 1.pdf; Excess Energy to Smelters.pdf; Comparative Data.pdf

Richard:

Attached are the remaining documents Big Rivers committed to furnish as a follow up to the conference call yesterday morning. Here are descriptions of each document file:

- "Revised Blackburn Affidavit Attachment 1." This file, as the title suggests, replaces Attachment 1 to the Blackburn Affidavit that was sent out Thursday evening, and which was discovered to contain an error. The corrections affect line 97 in the Revised Attachment 1. Lines 96 and 97 in the Revised Attachment were one line in the original Attachment 1.

- "Excess Energy to Smelters." This file is the model run of the existing transaction showing all excess energy after 2010 being sold to the smelters at large industrial rates, load factor adjusted, system-firm (of course, Big Rivers actually sells to Kenergy for resale to the smelters). This model run is provided, as requested, although Big Rivers believes it is not feasible as a practical matter. Selling all Big Rivers' excess energy to the smelters requires that it be sold "system-firm." System-firm energy is the energy remaining from energy available to Big Rivers under its 1998 LEM Power Purchase Agreement and its SEPA contract in each hour after Big Rivers has met its fluctuating member non-smelter load requirements. The member non-smelter load also varies rather dramatically on a seasonal basis. Under this scenario, the smelters would require load-following services and "provider-of-last-resort" services, the costs of which are not included in the rates shown.

- "Comparative Data." This file compares the "Excess Energy to Smelters" file and the "Revised Blackburn Affidavit Attachment 1" file.

We will be prepared to answer any questions on the Monday morning call.

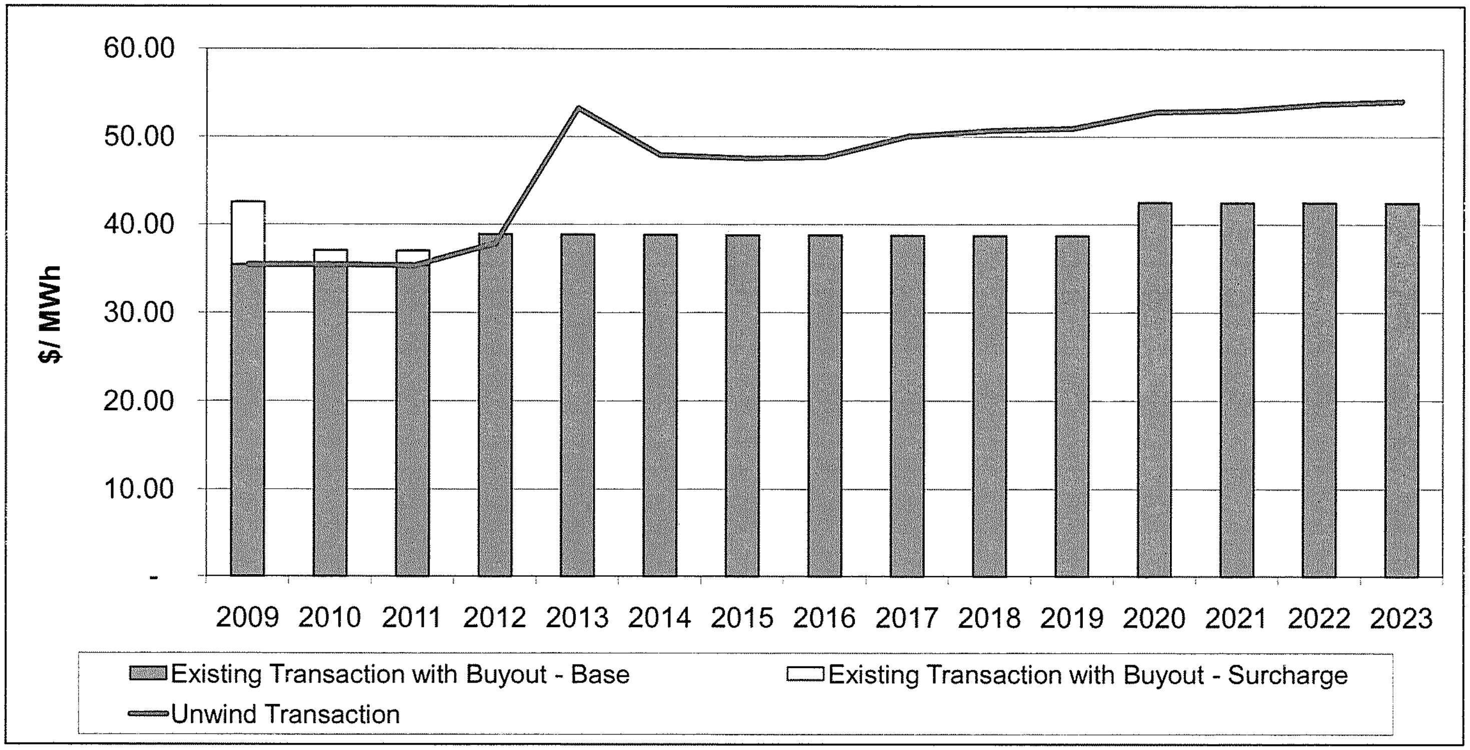
Jim Miller

Sullivan, Mountjoy, Stainback & Miller, P.S.C.
P. O. Box 727
100 St. Ann Street
Owensboro, KY 42302
(270) 926-4000

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Member Rate Summary	Wtd. Avg.															
Existing Transaction																
Base	39.32	35.45	35.42	35.39	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
% Change			0%	0%	10%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Surcharge	0.60	7.14	1.67	1.63	-	-	-	-	-	-	-	-	-	-	-	-
Increment to Arbitrage Case	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	39.92	42.59	37.09	37.02	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
Overall % Change			-13%	0%	5%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Unwind	47.59	35.45	35.42	35.29	37.85	53.23	47.85	47.49	47.63	50.02	50.66	50.92	52.77	52.98	53.65	53.99

Comparative Rate Graph:



This revised Attachment 1 to the September 25, 2008 affidavit of C. William Blackburn replaces the original Attachment 1 to that affidavit.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Energy Balance (GWh)																
Sales																
Members		3,501	3,584	3,674	3,760	3,852	3,939	4,032	4,122	4,217	4,308	4,404	4,498	4,596	4,691	4,786
Arbitrage		2,042	1,961	2,924	3,568	3,440	3,356	3,264	3,179	3,084	2,995	2,901	2,812	2,714	2,612	2,517
Smelters		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Losses		44	44	52	58	57	57	57	57	57	57	57	57	57	57	57
Sales + Losses		5,586	5,588	6,650	7,386	7,349	7,352	7,354	7,358	7,358	7,360	7,363	7,368	7,367	7,360	7,361
Purchases																
Base (LEM)		5,254	5,252	6,322	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008
SEPA		305	305	305	267	267	267	267	267	267	267	267	267	267	267	267
Market		28	32	24	111	74	77	79	83	83	85	88	93	92	85	86
Total		5,586	5,588	6,650	7,386	7,349	7,352	7,354	7,358	7,358	7,360	7,363	7,368	7,367	7,360	7,361
Energy Rates ($/ Mwh)																
Sales																
Members																
Base		35.45	35.42	35.39	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
Base % Change			0%	0%	10%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Surcharge		7.14	1.67	1.63	-	-	-	-	-	-	-	-	-	-	-	-
Increment to Arbitrage Case		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total		42.59	37.09	37.02	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
Overall % Change			-13%	0%	5%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Arbitrage		49.42	48.14	47.44	51.17	59.97	53.15	54.32	53.21	54.11	54.71	57.13	54.39	54.82	55.16	55.02
Smelters		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases																
Base (LEM)		20.33	20.63	20.95	20.27	20.59	20.92	21.25	21.59	21.93	22.28	22.63	22.99	23.36	23.72	24.08
SEPA		22.44	22.44	22.44	28.33	29.04	29.75	29.75	29.75	29.75	30.50	31.24	31.24	31.24	31.24	32.00
Market (Peak)		200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00

This revised Attachment 1 to the September 25, 2008 affidavit of C. William Blackburn replaces the original Attachment 1 to that affidavit.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow ($M)																
Beginning Balance	147.2	37.5	30.5	40.3	50.6	48.7	73.7	91.0	106.4	112.5	116.3	115.5	113.7	122.4	153.6	157.8
Receipts																
Members		149.1	132.9	136.0	146.3	149.7	153.0	156.5	159.9	163.4	166.9	170.5	191.4	195.4	199.4	203.3
Arbitrage		100.9	94.4	138.7	182.6	206.3	178.4	177.3	169.1	166.9	163.9	165.7	152.9	148.8	144.1	138.5
Smelters		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other		57.6	57.1	54.9	49.8	51.9	52.9	53.6	54.2	54.5	54.6	54.6	55.3	55.6	56.9	57.0
Total		307.6	284.4	329.6	378.6	408.0	384.2	387.4	383.3	384.8	385.4	390.8	399.6	399.8	400.3	398.9
Disbursements																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Energy Purchases		5.6	6.5	4.8	22.2	14.9	15.3	15.7	16.6	16.6	17.1	17.5	18.6	18.4	17.0	17.2
Market Purchase Related		17.7	18.4	10.8	12.6	12.3	12.3	12.1	12.0	11.9	11.9	11.8	11.7	11.6	11.5	11.4
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
RVP		-	-	-	-	-	-	-	-	-	-	-	-	-	-	376.6
Purchase of Production Inventory		-	-	-	-	-	-	-	-	-	-	-	-	-	-	80.1
Other		28.1	8.6	35.1	45.8	55.8	43.1	50.0	48.8	50.6	51.9	54.3	53.3	56.9	57.7	57.1
Total		182.3	166.5	208.2	249.1	254.5	245.3	255.4	257.9	262.7	267.7	273.7	277.0	283.6	286.0	745.8
BREC Share of Capital Expenditures		24.5	18.4	13.6	13.3	8.2	7.9	8.4	9.5	11.1	11.7	13.3	12.3	12.8	13.0	13.5
Debt Service																
New Borrowing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(390.3)
Principal Repayment (incl. ARVP)		39.2	41.0	53.3	77.0	80.7	78.6	77.0	82.5	84.5	88.3	91.2	91.2	66.2	93.6	115.3
Interest		52.9	48.7	44.3	41.1	39.5	35.2	31.2	27.2	22.8	18.5	14.5	10.5	6.0	3.4	-
Total		92.1	89.7	97.6	118.1	120.2	113.8	108.3	109.7	107.3	106.8	105.7	101.7	72.2	97.0	(275.0)
PMCC Lease Buyout																
Termination Payment (net)	(213.8)															
GIC	89.1															
Net	(124.7)															
PMCC Loan	15.0	(15.7)														
Net Cash Flow	(109.7)	(7.0)	9.8	10.3	(1.9)	25.1	17.3	15.4	6.1	3.8	(0.8)	(1.8)	8.6	31.3	4.2	(85.5)
Ending Balance	37.5	30.5	40.3	50.6	48.7	73.7	91.0	106.4	112.5	116.3	115.5	113.7	122.4	153.6	157.8	72.3

This revised Attachment 1 to the September 25, 2008 affidavit of C. William Blackburn replaces the original Attachment 1 to that affidavit.

Existing Transaction - Summary Financials Assuming PMCC Buyout

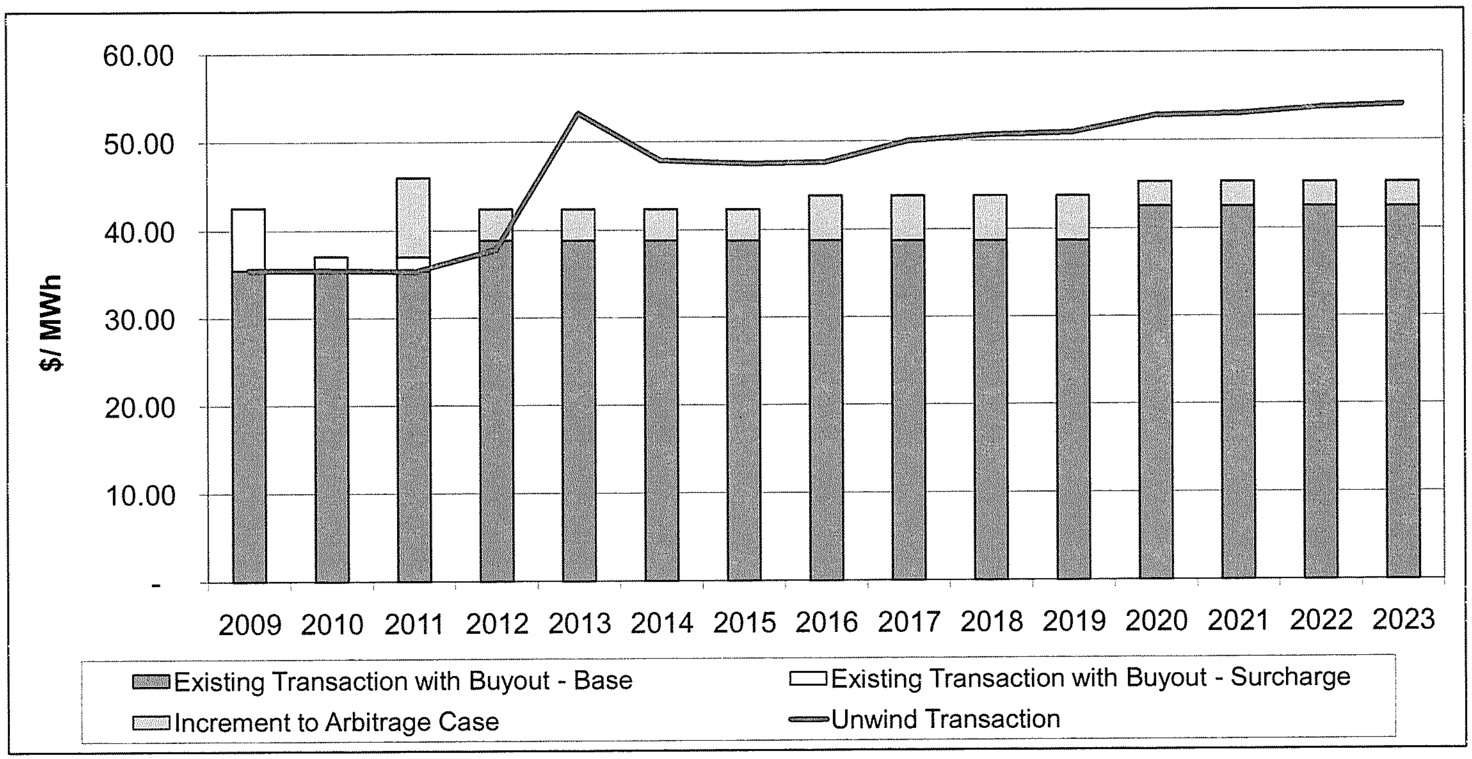
	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income Statement																
Revenues																
Members		149.1	132.9	136.0	146.3	149.7	153.0	156.5	159.9	163.4	166.9	170.5	191.4	195.4	199.4	203.3
Arbitrage		100.9	94.4	138.7	182.6	206.3	178.4	177.3	169.1	166.9	163.9	165.7	152.9	148.8	144.1	138.5
Other		37.7	37.8	11.8	9.7	9.9	11.2	12.3	13.3	14.1	14.9	15.7	17.5	19.5	23.5	29.4
Total		287.7	265.1	286.6	338.5	365.9	342.6	346.1	342.4	344.4	345.6	351.9	361.9	363.7	366.9	371.3
Expenses																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Purchases and Related		23.3	24.9	15.5	34.8	27.2	27.6	27.9	28.6	28.6	28.9	29.3	30.3	30.0	28.4	28.6
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
Interest		60.0	55.2	53.0	50.0	46.7	42.5	39.4	35.6	31.9	28.0	25.2	21.2	17.6	16.5	14.0
Other		32.7	26.2	46.3	51.1	55.9	51.0	55.5	54.9	56.1	57.5	59.2	57.8	61.9	62.5	62.6
Total		247.0	239.3	272.3	304.4	301.3	295.6	300.3	299.7	300.0	301.3	303.8	302.6	306.2	307.4	308.6
Net Margin		40.7	25.9	14.2	34.1	64.7	46.9	45.8	42.7	44.4	44.3	48.1	59.3	57.6	59.5	62.7
Balance Sheet																
Assets																
Net Utility Plant	917.2	959.5	968.0	970.5	954.7	945.4	928.6	911.1	892.5	875.6	860.7	848.6	832.9	817.0	800.7	785.1
Sale-Leaseback Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash & Investments	37.5	30.5	40.3	50.6	48.7	73.7	91.0	106.4	112.5	116.3	115.5	113.7	122.4	153.6	157.8	72.3
Receivables & Other	135.9	132.2	125.3	116.2	115.1	114.0	106.4	101.0	95.0	89.5	84.0	79.0	74.5	69.3	64.0	139.0
Assets	1,090.6	1,122.2	1,133.6	1,137.3	1,118.4	1,133.2	1,125.9	1,118.4	1,100.0	1,081.4	1,060.2	1,041.3	1,029.8	1,039.9	1,022.6	996.5
Liabilities & Equities																
Equities	(130.7)	(90.0)	(64.2)	(49.9)	(15.8)	48.8	95.7	141.5	184.2	228.6	272.9	321.0	380.3	437.9	497.4	560.1
Sale-Leaseback Obligation & Unamortized Gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt	1,042.1	994.2	959.5	913.0	843.0	769.6	698.8	629.9	555.9	480.4	401.5	320.2	239.5	184.2	102.4	390.3
RVP/ Lease Advance	152.6	190.6	200.2	232.5	243.7	268.6	285.8	301.6	314.8	327.6	341.1	355.1	365.3	373.1	377.6	0.0
Payables & Other	26.6	27.5	38.0	41.8	47.6	46.1	45.6	45.4	45.1	44.9	44.6	45.0	44.8	44.7	45.2	46.1
Liabilities & Equities	1,090.6	1,122.2	1,133.6	1,137.3	1,118.4	1,133.2	1,125.9	1,118.4	1,100.0	1,081.4	1,060.2	1,041.3	1,029.8	1,039.9	1,022.6	996.5

This revised Attachment 1 to the September 25, 2008 affidavit of C. William Blackburn replaces the original Attachment 1 to that affidavit.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Member Rate Summary	Wtd. Avg.															
Existing Transaction																
Base	39.32	35.45	35.42	35.39	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
% Change			0%	0%	10%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Surcharge	0.60	7.14	1.67	1.63	-	-	-	-	-	-	-	-	-	-	-	-
Increment to Arbitrage Case	3.65	-	-	8.98	3.54	3.53	3.53	3.53	5.06	5.06	5.06	5.05	2.79	2.79	2.79	2.79
Total	43.57	42.59	37.09	46.00	42.43	42.40	42.37	42.34	43.85	43.82	43.79	43.77	45.34	45.31	45.29	45.27
Overall % Change			-13%	24%	-8%	0%	0%	0%	4%	0%	0%	0%	4%	0%	0%	0%
Unwind	47.59	35.45	35.42	35.29	37.85	53.23	47.85	47.49	47.63	50.02	50.66	50.92	52.77	52.98	53.65	53.99

Comparative Rate Graph:



Data reflects model run of Existing Transaction assuming all excess energy after 2010 is sold to the Smelters at the Large Industrial rate (load factor adjusted), on a system-firm basis.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Energy Balance (GWh)																
Sales																
Members		3,501	3,584	3,674	3,760	3,852	3,939	4,032	4,122	4,217	4,308	4,404	4,498	4,596	4,691	4,786
Arbitrage		2,042	1,961	-	-	-	-	-	-	-	-	-	-	-	-	-
Smelters		-	-	2,901	3,458	3,367	3,280	3,186	3,096	3,002	2,910	2,814	2,720	2,622	2,528	2,432
Losses		44	44	52	57	57	57	57	57	57	57	57	57	57	57	57
Sales + Losses		5,586	5,588	6,626	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275
Purchases																
Base (LEM)		5,254	5,252	6,322	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008
SEPA		305	305	305	267	267	267	267	267	267	267	267	267	267	267	267
Market		28	32	-	-	-	-	-	-	-	-	-	-	-	-	-
Total		5,586	5,588	6,626	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275
Energy Rates ($/ Mwh)																
Sales																
Members																
Base		35.45	35.42	35.39	38.90	38.87	38.84	38.81	38.79	38.76	38.74	38.72	42.55	42.52	42.50	42.48
Base % Change			0%	0%	10%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
Surcharge		7.14	1.67	1.63	-	-	-	-	-	-	-	-	-	-	-	-
Increment to Arbitrage Case		-	-	8.98	3.54	3.53	3.53	3.53	5.06	5.06	5.06	5.05	2.79	2.79	2.79	2.79
Total		42.59	37.09	46.00	42.43	42.40	42.37	42.34	43.85	43.82	43.79	43.77	45.34	45.31	45.29	45.27
Overall % Change			-13%	24%	-8%	0%	0%	0%	4%	0%	0%	0%	4%	0%	0%	0%
Arbitrage		49.42	48.14	-	-	-	-	-	-	-	-	-	-	-	-	-
Smelters		-	-	27.62	33.14	33.14	33.14	33.14	34.35	34.35	34.35	34.35	35.59	35.59	35.59	35.59
Purchases																
Base (LEM)		20.33	20.63	20.95	20.27	20.59	20.92	21.25	21.59	21.93	22.28	22.63	22.99	23.36	23.72	24.08
SEPA		22.44	22.44	22.44	28.33	29.04	29.75	29.75	29.75	29.75	30.50	31.24	31.24	31.24	31.24	32.00
Market (Peak)		200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00

Data reflects model run of Existing Transaction assuming all excess energy after 2010 is sold to the Smelters at the Large Industrial rate (load factor adjusted), on a system-firm basis.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow ($M)																
Beginning Balance	147.2	37.5	30.5	40.3	50.5	52.2	58.2	63.9	68.9	78.0	86.7	92.0	94.9	110.0	148.2	158.7
Receipts																
Members		149.1	132.9	169.0	159.5	163.3	166.9	170.7	180.7	184.8	188.6	192.8	204.0	208.2	212.4	216.7
Arbitrage		100.9	94.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Smelters		-	-	80.1	114.6	111.6	108.7	105.6	106.3	103.1	100.0	96.6	96.8	93.3	90.0	86.6
Other		57.6	57.1	54.9	48.3	48.2	48.3	48.4	48.6	48.8	49.0	49.0	49.0	49.4	50.7	50.9
Total		307.6	284.4	304.0	322.5	323.1	323.9	324.7	335.7	336.7	337.6	338.4	349.8	351.0	353.1	354.1
Disbursements																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Energy Purchases		5.6	6.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Market Purchase Related		17.7	18.4	4.9	4.7	4.8	5.0	5.1	5.2	5.4	5.5	5.7	5.8	6.0	6.2	6.3
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
RVP		-	-	-	-	-	-	-	-	-	-	-	-	-	-	376.6
Purchase of Production Inventory		-	-	-	-	-	-	-	-	-	-	-	-	-	-	80.1
Other		28.1	8.6	22.4	19.0	19.7	22.2	26.4	27.3	26.8	27.8	27.9	29.9	33.8	34.9	35.6
Total		182.3	166.5	184.8	192.2	196.0	201.8	208.9	213.1	215.7	220.1	223.7	229.1	236.4	241.0	702.1
BREC Share of Capital Expenditures		24.5	18.4	13.6	13.3	8.2	7.9	8.4	9.5	11.1	11.7	13.3	12.3	12.8	13.0	13.5
Debt Service																
New Borrowing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(464.5)
Principal Repayment (incl. ARVP)		39.2	41.0	51.1	74.2	73.4	73.3	71.1	76.8	78.4	82.0	84.0	82.7	57.6	85.2	189.5
Interest		52.9	48.7	44.3	41.1	39.5	35.2	31.2	27.2	22.8	18.5	14.5	10.5	6.0	3.4	-
Total		92.1	89.7	95.4	115.3	112.9	108.5	102.4	104.0	101.2	100.5	98.5	93.2	63.6	88.6	(275.0)
PMCC Lease Buyout																
Termination Payment (net)	(213.8)															
GIC	89.1															
Net	(124.7)															
PMCC Loan	15.0	(15.7)														
Net Cash Flow	(109.7)	(7.0)	9.8	10.2	1.7	6.0	5.7	5.0	9.1	8.7	5.3	3.0	15.1	38.2	10.5	(86.5)
Ending Balance	37.5	30.5	40.3	50.5	52.2	58.2	63.9	68.9	78.0	86.7	92.0	94.9	110.0	148.2	158.7	72.2

Data reflects model run of Existing Transaction assuming all excess energy after 2010 is sold to the Smelters at the Large Industrial rate (load factor adjusted), on a system-firm basis.

Existing Transaction - Summary Financials Assuming PMCC Buyout

	PMCC Lease Buyout @ 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income Statement																
Revenues																
Members		149.1	132.9	169.0	159.5	163.3	166.9	170.7	180.7	184.8	188.6	192.8	204.0	208.2	212.4	216.7
Arbitrage		100.9	94.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Other		37.7	37.8	91.9	122.8	117.8	115.3	112.7	114.0	111.5	109.2	106.7	108.1	106.7	107.3	109.8
Total		287.7	265.1	261.0	282.3	281.1	282.2	283.4	294.8	296.2	297.8	299.5	312.1	314.9	319.8	326.5
Expenses																
Base Purchases		106.8	108.3	132.4	142.0	144.3	146.6	148.9	151.3	153.7	156.1	158.6	161.1	163.7	166.2	168.8
SEPA Purchases		6.8	6.8	6.8	7.6	7.8	7.9	7.9	7.9	7.9	8.1	8.3	8.3	8.3	8.3	8.5
Market Purchases and Related		23.3	24.9	4.9	4.7	4.8	5.0	5.1	5.2	5.4	5.5	5.7	5.8	6.0	6.2	6.3
A&G		17.3	17.8	18.3	18.9	19.5	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.6	25.4	26.1
Interest		60.0	55.2	53.0	50.0	46.7	42.5	39.4	35.6	31.9	28.0	25.2	21.2	17.6	16.5	14.0
Other		32.7	26.2	28.0	26.4	27.1	28.0	32.0	32.1	32.4	33.3	33.1	34.0	38.2	39.0	39.6
Total		247.0	239.3	243.4	249.7	250.0	250.0	254.0	253.4	253.2	253.7	254.2	254.4	258.5	261.6	263.4
Net Margin		40.7	25.9	17.5	32.7	31.1	32.2	29.5	41.4	43.1	44.2	45.4	57.7	56.4	58.2	63.1
Balance Sheet																
Assets																
Net Utility Plant	917.2	959.5	968.0	970.5	954.7	945.4	928.6	911.1	892.5	875.6	860.7	848.6	832.9	817.0	800.7	785.1
Sale-Leaseback Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash & Investments	37.5	30.5	40.3	50.5	52.2	58.2	63.9	68.9	78.0	86.7	92.0	94.9	110.0	148.2	158.7	72.2
Receivables & Other	135.9	132.2	125.3	120.2	114.1	106.9	101.4	95.9	91.2	85.6	80.1	74.7	70.5	65.8	61.6	138.0
Assets	1,090.6	1,122.2	1,133.6	1,141.2	1,120.9	1,110.6	1,093.9	1,075.9	1,061.7	1,048.0	1,032.8	1,018.3	1,013.5	1,031.0	1,021.0	995.3
Liabilities & Equities																
Equities	(130.7)	(90.0)	(64.2)	(46.6)	(14.0)	17.1	49.3	78.7	120.1	163.2	207.3	252.7	310.4	366.8	424.9	488.0
Sale-Leaseback Obligation & Unamortized Gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt	1,042.1	994.2	959.5	915.2	848.0	782.0	716.4	653.4	585.1	515.7	443.1	369.0	296.6	249.9	176.5	464.5
RVP/ Lease Advance	152.6	190.6	200.2	232.5	243.7	268.6	285.8	301.6	314.8	327.6	341.1	355.1	365.3	373.1	377.6	0.0
Payables & Other	26.6	27.5	38.0	40.2	43.2	42.9	42.3	42.1	41.7	41.5	41.2	41.5	41.2	41.2	41.9	42.8
Liabilities & Equities	1,090.6	1,122.2	1,133.6	1,141.2	1,120.9	1,110.6	1,093.9	1,075.9	1,061.7	1,048.0	1,032.8	1,018.3	1,013.5	1,031.0	1,021.0	995.3

Data reflects model run of Existing Transaction assuming all excess energy after 2010 is sold to the Smelters at the Large Industrial rate (load factor adjusted), on a system-firm basis.

Comparative Data: Existing Transaction - 2009 - 2023

	Case	1 Arbitrage Case *Revised Blackburn Affidavit, Attachment 1*	Delta	2 Excess Energy to Smelters	
1	**Energy Balance (GWh)**				
2					
3	*Sales*				
4	Members	61,964	-	61,964	
5	Arbitrage	43,368	(39,365)	4,003	
6	Smelters	-	38,315	38,315	<< increased GWh sales to Smelters
7	*Losses*	828	(8)	820	
8	Sales + Losses	106,160	(1,059)	105,101	
9	*Purchases*				
10	Base (LEM)	100,923	-	100,923	
11	SEPA	4,118	-	4,118	
12	Market	1,120	(1,059)	60	<< elimination of market purchases after 2010
13	Total	106,160	(1,059)	105,101	
14					
15	**Energy Rates ($/ Mwh)**				
16					
17	*Sales*				
23	Members	39.92	3.65	43.57	<< increase in member rates needed to preserve cash
24					
25	Arbitrage	53.69	(4.90)	48.79	<< average rates on arb. sales actually realized
26	Smelters	-		33.75	
27	*Purchases*				
28	Base (LEM)	21.89		21.89	
29	SEPA	28.57	-	28.57	
30	Market (Peak)	200.00	-	200.00	
31					

Comparative Data: Existing Transaction - 2009 - 2023

Case	1 Arbitrage Case *Revised Blackburn Affidavit, Attachment 1*	Delta	2 Excess Energy to Smelters	
Cash Flow ($M)				
Beginning Balance	147		147	
Receipts				
Members	2,474	226	2,700	
Arbitrage	2,328	(2,133)	195	
Smelters	-	1,293	1,293	
Other	821	(62)	758	<< reduced transmission revenues
Total	5,623	(676)	4,947	
Disbursements				
Base Purchases	2,209	-	2,209	
SEPA Purchases	118	-	118	
Market Energy Purchases	224	(212)	12	<< reduced energy purchases
Market Purchase Related	190	(83)	107	
A&G	321	-	321	
RVP	377	-	377	
Purchase of Production Inventory	80	-	80	
Other	697	(307)	390	<< reduced taxes on arbitrage sale
Total	4,216	(602)	3,614	
BREC Share of Capital Expenditures	192		192	
Debt Service				
New Borrowing	(390)	(74)	(464)	<< larger refinancing of remaining ARVP in 2023
Principal Repayment (incl. ARVP)	1,159	-	1,159	
Interest	396	-	396	
Total	1,165	(74)	1,091	
PMCC Lease Buyout				
Termination Payment (net)	(214)	-	(214)	
GIC	89	-	89	
Net	(125)	-	(125)	
PMCC Loan	(1)	-	(1)	
Net Cash Flow	(75)	(0)	(75)	
Ending Balance	72	(0)	72	

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Cc: <jgaines@jdg-llc.com>
Subject: Supplemental Information, Case No. 2007-00455
Date: Friday, September 26, 2008 5:58:07 PM

Richard:

Attached is a revision to Attachment 3 (designated 3A), prepared in accordance with the Commission staff request on our call this morning. Again, we apologize for having over-committed on the timing of getting out the documents Big Rivers has promised to provide. The balance of the documents will be coming out tonight or early tomorrow.

To reiterate comments made on behalf of Big Rivers this morning, Big Rivers is continuing on a path toward buying out the PMCC leveraged leases ("Buyout"). It is not requesting any opinion, consent or approval from the Commission or Commission staff in connection with the Buyout. If Commission staff or any party to this proceeding raises an issue about the proposed Buyout, Big Rivers will consider the risks associated with proceeding with the Buyout in the face of the issue raised. Big Rivers will not consider the absence of an objection to the Buyout by the Commission or any party as waiving or compromising any right the Commission or any party may otherwise have to object to the Buyout.

The conference call suggested by Commission staff is set for 9:00 a.m. EDT on Monday, September 29, 2008, using a call-in number of (888) 476-6131, and a participant code of 934845.

Jim Miller

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Attachment 1: Attachment%203A.pdf (application/pdf)

ATTACHMENT 3A

Impact of PMCC Lease Buyout in Isolation, Unwind Model Dated 9/23/08

		Tot./ Wtd Avg.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Energy Sales (TWh)																
	Members	61.96	3.50	3.58	3.67	3.76	3.85	3.94	4.03	4.12	4.22	4.31	4.40	4.50	4.60	4.69	4.79
	Smelters	109.52	7.30	7.30	7.30	7.32	7.30	7.30	7.30	7.32	7.30	7.30	7.30	7.32	7.30	7.30	7.30
	Analysis of Change in Total Revenue Requirement ($M; 2009 - 2023)																
1	*December Close/ $72.5m Buyout*	8,591.0	439.4	451.6	476.8	524.9	598.3	538.0	546.0	552.0	608.8	589.4	625.5	634.9	657.5	662.4	685.6
2	Increases from Operations																
3	Fuel Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Non-Fuel Variable Production O&M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	A&G	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Fixed Production O&M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Gain on Sale of Emissions Allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Marketing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Smelter Economic Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Transmission O&M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Earnings	7.3	(0.0)	0.3	0.6	2.9	0.9	0.7	0.5	0.1	0.1	(0.0)	(0.2)	0.5	0.3	0.4	0.5
12	Subtotal - Increases	7.3	(0.0)	0.3	0.6	2.9	0.9	0.7	0.5	0.1	0.1	(0.0)	(0.2)	0.5	0.3	0.4	0.5
13																	
14	Reductions from Operations																
15	Offsystem Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	SEPA & Other Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Depreciation & Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Member Economic Reserve	0.0	-	(0.1)	(0.3)	0.4	-	-	-	-	-	-	-	-	-	-	-
19	Income Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	RUS Note & PCB Restructuring Charge	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
21	Subtotal - Reductions	0.3	0.0	(0.1)	(0.3)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
22																	
23	Lease Buyout																
24	Continuation of Net Lease Income	(27.3)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.9)
25	Continuation of CoBank Patronage	(13.0)	(0.6)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
26	BofA Lease Gain Amortized	(10.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
27	Subtotal - Lease Buyout	(50.9)	(3.0)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
28																	
29	Interest Expense (Incl. Financing Fees)	(70.4)	(4.2)	(4.5)	(4.7)	(8.9)	(5.9)	(5.3)	(4.7)	(4.0)	(4.0)	(3.7)	(3.5)	(4.3)	(4.2)	(4.2)	(4.2)
30																	
31	Net Margin	30.0	1.4	(1.1)	1.5	0.6	1.4	1.7	1.9	2.2	2.4	2.6	2.8	2.8	3.0	3.2	3.5
32																	
33	Rebate Realized	0.0	(0.2)	(0.6)	0.9	0.0	(0.0)	-	-	-	-	-	-	-	-	-	-
34	Total	(83.7)	(6.1)	(9.4)	(5.5)	(8.5)	(7.0)	(6.4)	(5.7)	(5.1)	(4.9)	(4.5)	(4.2)	(4.5)	(4.3)	(4.0)	(3.6)
35	*December Close/ No PMCC Buyout*	8,507.3	433.4	442.2	471.4	516.4	591.3	531.6	540.2	546.9	603.9	584.8	621.2	630.4	653.2	658.4	681.9

Rate Impact Analysis ($/ MWh)

	Blended Member + Smelter Impact	(0.49)	(0.56)	(0.87)	(0.50)	(0.77)	(0.63)	(0.57)	(0.51)	(0.44)	(0.42)	(0.39)	(0.36)	(0.38)	(0.36)	(0.34)	(0.30)
	1. Non-Smelter Members																
1	*December Close/ $72.5m Buyout*	47.59	35.45	35.42	35.29	37.85	53.23	47.85	47.49	47.63	50.02	50.66	50.92	52.77	52.98	53.65	53.99
2	MRDA Continued	(0.89)	(1.05)	(1.03)	(1.00)	(0.98)	(0.96)	(0.93)	(0.91)	(0.89)	(0.87)	(0.85)	(0.84)	(0.82)	(0.80)	(0.78)	(0.77)
3	GRA	0.33	-	-	0.35	0.35	0.35	0.35	0.35	0.35	0.39	0.39	0.39	0.39	0.39	0.39	0.43
4	Regulatory Account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5																	
6	FAC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Environmental Surcharge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Surcharge Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Rebate Realized	0.01	0.00	0.02	0.08	(0.00)	0.00	-	0.00	0.00	0.00	(0.00)	(0.00)	0.00	0.00	0.00	0.00
10	Economic Reserve/ MRSM	0.00	-	(0.02)	(0.08)	0.10	-	-	-	-	-	-	-	-	-	-	-
11	*Net*	0.01	0.00	0.00	0.00	0.10	0.00	-	0.00	0.00	0.00	(0.00)	(0.00)	0.00	0.00	0.00	0.00
12																	
13	*Overall Change*	(0.55)	(1.05)	(1.03)	(0.65)	(0.52)	(0.60)	(0.58)	(0.56)	(0.54)	(0.49)	(0.47)	(0.45)	(0.43)	(0.42)	(0.40)	(0.34)
14	*December Close/ No PMCC Buyout*	47.03	34.40	34.39	34.64	37.33	52.63	47.26	46.93	47.09	49.54	50.19	50.47	52.33	52.57	53.25	53.64
	CHECK		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2. Smelters																
1	*December Close/ $72.5m Buyout*	51.52	43.21	44.50	47.58	52.28	53.90	47.90	48.58	48.61	54.52	50.86	54.98	54.33	56.74	56.28	58.54
2	MRDA Continued	(0.71)	(0.83)	(0.81)	(0.79)	(0.77)	(0.75)	(0.74)	(0.72)	(0.71)	(0.69)	(0.68)	(0.66)	(0.65)	(0.64)	(0.62)	(0.61)
3	GRA	0.26	(0.00)	(0.00)	0.28	0.28	0.28	0.28	0.28	0.28	0.31	0.31	0.31	0.31	0.31	0.31	0.34
4	TIER Adjustment	(0.00)	0.50	-	0.01	(0.40)	(0.17)	(0.10)	(0.03)	0.04	(0.00)	0.02	0.05	(0.00)	(0.00)	0.02	(0.00)
5	FAC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Smelter Economic Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Environmental Surcharge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Power Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Surcharge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	TIER Related Rebate	0.01	-	0.02	0.08	-	-	-	-	-	-	-	-	-	-	-	-
11	*Overall Change*	(0.45)	(0.33)	(0.79)	(0.42)	(0.89)	(0.64)	(0.56)	(0.48)	(0.39)	(0.39)	(0.35)	(0.31)	(0.35)	(0.33)	(0.29)	(0.27)
12	*December Close/ No PMCC Buyout*	51.07	42.89	43.71	47.16	51.39	53.26	47.34	48.10	48.22	54.14	50.52	54.67	53.98	56.41	55.99	58.27