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August 29, 2008

VIA HAND DELIVERY

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

RE: 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
Case No. 2007-00455

Dear Ms. Stumbo:

Enclosed please find and accept for filing the original and ten copies of the Joint Applicants' Status Report Compliance Filing in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions please contact me at your convenience.

Yours very truly,

Kendrick R. Riggs

KRR:ec

cc: Parties of Record

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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)	CASE NO. 2007-00455
(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)	

STATUS REPORT COMPLIANCE FILING

The applicants ("Applicants") Big Rivers Electric Corporation ("Big Rivers"), E.ON U.S. LLC ("E.ON US"), Western Kentucky Energy Corp. ("WKEC") and LG&E Energy Marketing, Inc. ("LEM," and collectively with E.ON US and WKEC, the "E.ON Parties") make this status report filing, through counsel, to comply with the requirements of the order of the Public Service Commission ("Commission") in this matter dated August 22, 2008.

Ambac Assurance Corporation Issue

On April 18, 2000, Big Rivers consummated five virtually identical lease and leaseback transactions ("Leveraged Leases") of its ownership interest in (i) D. B. Wilson Unit No. 1 (the "Wilson Unit"); (ii) Plant Robert D. Green Unit 1 and Unit 2 (the "Green Units"); and (iii) the common facilities owned by Big Rivers which are located on the same site as the Green Units, and used in the operation of both Green Units (the "Common Facilities" and, collectively with the Wilson Unit, the Green Units and the Common Facilities, the "Facilities"). Three

transactions involved the Green Units and Common Facilities and two transactions involved the Wilson Unit.¹

These commercial transactions are different and apart from the 1998 lease transaction approved by the Commission between E.ON US and its affiliates, and Big Rivers,² and the proposed unwind transaction in this proceeding. Certain credit enhancements in the Leveraged Leases are supported by Ambac Assurance Corporation (“Ambac”). Under the Leveraged Lease documents, Big Rivers is in default if Ambac’s credit rating falls below a certain level, and Big Rivers fails to replace Ambac within 60 days with another suitable credit enhancer.

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 (the Ambac Issue). 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 No. 2007-00455, the Applicants requested the hearing scheduled for Tuesday, July 1, 2008 be postponed.

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*.

² *In the Matter of: The Application of Big Rivers Electric Corporation, Louisville Gas and Electric Company, Western Kentucky Energy Corp., Western Kentucky Leasing Corp., and LG&E Station Two Inc for Approval of Wholesale Rate Adjustment for Big Rivers Electric Corporation and for Approval of Transaction*, Case No. 97-204, Final Order (June 11, 1998); *In the Matter of: The Application of Big Rivers Electric Corporation for Approval of the 1998 Amendments to Station Two Contracts Between Big Rivers Electric Corporation and the City of Henderson, Kentucky and the Utility Commission of the City of Henderson*, Case No. 98-267, Final Order (July 14, 1998). See also, *In the Matter of: The Application of Big Rivers Electric Corporation, LG&E Energy Marketing Inc., Western Kentucky Energy Corp, WKE Station Two Inc. and WKE Corp for Approval of Amendments to Transaction Documents*, Case No. 2000-00118, Order (November 24, 1999).

Big Rivers, with assistance from the E.ON Parties, began working on a resolution to the Ambac Issue immediately upon receipt of notice that the Ambac downgrade had occurred. Big Rivers identified within a matter of days a concept that it believed would resolve the problem for the Philip Morris Capital Corporation (“PMCC”) entity to which the credit enhancement replacement obligations are owed by Big Rivers. PMCC is one of two original equity parties involved in the Leveraged Lease transactions consummated by Big Rivers in 2000.³ Under the existing Leveraged Leases, PMCC, through three Owner Participant Trusts, presently holds the beneficial interests in three leases of undivided interests in the generation facilities at the Facilities. Under each of these leases, the undivided interests in the leased plants are leased back to Big Rivers such that the Owner Participant leases are “invisible” to the public as far as the operation of the plants is concerned.

That concept was vetted with Big Rivers’ board, Big Rivers’ member cooperatives, the E.ON Parties, the smelter parties to this proceeding and Big Rivers’ creditors. Big Rivers creditors other than the Rural Utilities Service (“RUS”) have worked with Big Rivers to draft documents that would implement the solution identified by Big Rivers, if that solution is accepted by RUS. The RUS is currently considering the solution, but has most recently requested changes in the solution that would require changes in the structure of the Unwind Transaction.

Based upon a number of factors, including timing and the RUS concerns, Big Rivers and the E.ON Parties began working last week on alternate terms for a solution that they hope will be presented to Big Rivers’ creditors, including RUS, within the next few days. Among other

³ Bank of America Leasing Corporation was the other original equity party to the Leverage Lease transaction. On June 27, 2008, Commission General Counsel issued an advisory opinion in connection with the early termination of the two Leveraged Leases held by Bank of America Leasing Corporation. The termination of those two leases occurred with the closing of the transaction on June 30, 2008, leaving PMCC as the only remaining equity party to the Leverage Leased transaction.

things, the alternate solution will be simpler than the first solution proposed by Big Rivers. Late this week, Big Rivers and the smelter parties agreed in concept to the alternate solution. The proposed agreements with the smelter parties must be amended if the alternate solution is pursued.

All parties required to solve the Ambac Issue have been working hard to achieve an acceptable and workable resolution. The RUS has given extraordinary attention to this task. The Applicants are optimistic that the alternate solution to the Ambac Issue will be acceptable to the parties. If the Applicants are correct, based upon the work done to date this alternate solution can be documented relatively quickly after the key parties agree to it. A supplemental report on the progress made by the Applicants will be filed with the Commission by Monday, September 8, 2008.

The City of Henderson, Utility Commission Issue

The City of Henderson and the City of Henderson, Utility Commission (collectively, "Henderson") must consent to early termination of the Station Two Agreement in the Big Rivers-E.ON Parties existing transaction for the Unwind Transaction to be consummated. Henderson continues to assert that (1) Henderson retail customers are subsidizing the profits of WKEC currently, and Big Rivers in the future, because while Henderson must pay for its share of Station II capacity, Henderson only receives a margin of \$1.50/MWH for excess energy utilized by WKEC and Big Rivers; and (2) there are a number of maintenance and repair claims with Station II resulting from WKEC's operation of the Station Two facility. While strongly disagreeing with Henderson's claims, Big Rivers and WKEC have made several good faith offers to address these matters in order to obtain Henderson's consent to the Unwind Transaction.

Since the end of June, representatives of one or more of Big Rivers, WKEC and the smelters have met or otherwise communicated with representatives of the Henderson on multiple occasions, and have appeared before the City of Henderson City Commission. Big Rivers and WKEC have made several good faith offers to address these matters in order to obtain Henderson's consent to the Unwind Transaction. Each and every offer has been rejected by the Henderson utility commission.

Both Big Rivers and WKEC are evaluating the next steps, and nevertheless continue to believe that a mutually acceptable solution to these matters can be reached with Henderson. But that resolution is more likely to occur after the Commission has issued an order approving the Unwind Transaction on the condition that Henderson's consent to the Unwind Transaction is obtained.

Unwind Financial Model

As promised to Commission staff and the Attorney General, along with any other filings made by Big Rivers in advance of the hearing in this matter, Big Rivers expects to file an update of the Unwind Financial Model to reflect material, known changes in the model.

Revisions to Procedural Schedule

Big Rivers and WKEC expect to propose a revised procedural schedule, including a proposed hearing date, as soon as a solution to the Ambac Issue has been given tacit approval by Big Rivers' creditors, including RUS. At that time, Big Rivers will propose a schedule for filing and review of the documents required to accomplish resolution of the Ambac Issue, along with revisions to any documents already filed that are altered by that resolution, any new documents required by that resolution, and testimony or other explanation required to describe the Ambac Issue resolution and the changes to the Unwind Financial Model.

Transmission Project Certificate of Convenience and Necessity

Big Rivers was granted a certificate of public convenience and necessity in P.S.C. Case No. 2007-00177 to construct what Big Rivers has called the “Phase II” transmission project. The Phase II transmission project is required if the Unwind Transaction closes and Big Rivers provides the level of service to Kenergy for resale to the smelter parties that is contemplated in this proceeding. But Big Rivers will not commence construction of the Phase II transmission project unless and until the Unwind Transaction closes.

That certificate was granted on October 30, 2007. As the Commission is aware, unless exercised within one year after that date, exclusive of any delay due to failure to obtain any necessary grant or consent, the authority conferred by the issuance of the certificate is void. Based upon the current status of this proceeding, Big Rivers will not be in a position to commence construction of the Phase II transmission project until sometime after October 30, 2008. Big Rivers will accordingly be taking steps to seek the Commission action necessary to preserve the authority granted in this critical piece of the Unwind Transaction.

Other Issues

Big Rivers and WKEC continue to work on other closing related items, and have targeted November 21, 2008 as the closing date, assuming the agreed conditions precedent to that closing have been satisfied by that date. A complete update on the progress made toward resolving closing-related items will be provided to the Commission along with the filing presenting the resolution to the Ambac Issue.

Timing

As soon as Big Rivers receives notification from the parties to the resolution of the Ambac Issue that the alternate resolution strategy is acceptable, and can be documented, Big Rivers and the E.ON Parties will advise the Commission and the parties to this proceeding of this


fact, and will propose an amendment to the procedural schedule, including dates for an informal conference and a hearing. If this alternate resolution of the Ambac Issue is acceptable to the necessary parties to it, Big Rivers and the E.ON Parties expect to give notification of that fact as soon as possible, perhaps within the next ten days considering the effect of the holiday weekend on the availability of persons who make decisions for the other parties. Big Rivers and the E.ON Parties will keep the Commission and the parties to this proceeding abreast of the progress of the resolution of the Ambac Issue by e-mail message to the counsel of record.

Should the Commission have any questions at any time about the contents of this report or the status of the transaction, please contact us at your first convenience.

Dated: August 29, 2008

James M. Miller / Big Rivers
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