SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC

ATTORNEYS AT LAW

IId M. Sullivan Jesse T. Mountjoy Frank Stainback James M. Miller Michael A. Fiorella Allen W. Holbrook R. Michael Sullivan Bryan R. Reynolds Tyson A. Kamuf Mark W. Starnes C. Ellsworth Mountjoy Mary L. Moorhouse

July 20, 2011

RECEIVED

Via Federal Express

JUL **2 1** 2011

PUBLIC SERVICE

COMMISSION

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

> Re: In the Matter of: Notice and Application of Big Rivers Electric Corporation for a General Adjustment in Rates, PSC Case No. 2011-00036

Dear Mr. DeRouen:

Enclosed for filing on behalf of Big Rivers Electric Corporation are an original and ten copies of Big Rivers' Fourth Supplemental Response to Item 56 of the Commission Staff's Initial Request for Information. I certify that a copy of this letter and a copy of the supplemental response have been served on each party of record.

Sincerely,

TSR

Tyson Kamuf

TAK/ej Enclosures

cc: Mark A. Bailey Albert Yockey Douglas Beresford, Esq. Service List

Telephone (270) 926-4000 Telecopier (270) 683-6694

> st. Ann Building PO Box 727 Owensboro, Kentucky 42302-0727

SERVICE LIST BIG RIVERS ELECTRIC CORPORATION PSC CASE NO. 2011-00036

Dennis G. Howard, II, Esq. Lawrence W. Cook, Esq. Assistant Attorneys General 1024 Capital Center Drive Suite 200 Frankfort, KY 40601-8204

Michael L. Kurtz, Esq. Boehm, Kurtz & Lowry 36 East Seventh Street Suite 1510 Cincinnati, OH 45202 COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

David C. Brown, Esq. Stites & Harbison 1800 Providian Center 400 West Market Street Louisville, KY 40202 COUNSEL FOR ALCAN PRIMARY PRODUCTS CORPORATION

J. Christopher Hopgood, Esq. Dorsey, King, Gray, Norment & Hopgood 318 Second Street Henderson, KY 42420 **COUNSEL FOR KENERGY CORP.**

Melissa D. Yates Denton & Keuler, LLP 555 Jefferson Street P.O. Box 929 Paducah, KY 42002-0929 COUNSEL FOR JACKSON PURCHASE ENERGY CORPORATION Sanford Novick President and CEO Kenergy Corp. 3111 Fairview Drive P.O. Box 1389 Owensboro, Kentucky 42302-1389

G. Kelly Nuckols President and CEO Jackson Purchase Energy Corporation 2900 Irvin Cobb Drive P.O. Box 4030 Paducah, KY 42002-4030

Burns E. Mercer President/CEO Meade County R.E.C.C. 1351 Highway 79 P.O. Box 489 Brandenburg, KY 40108-0489

BIG RIVERS ELECTRIC CORPORATION

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

VERIFICATION

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

C. William Blackburn

COMMONWEALTH OF KENTUCKY) COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by C. William Blackburn on this the /9^{+/i}day of July, 2011.

Notary Public, Ky. State at Large My Commission Expires <u>03/03/20</u>/4

ORIGINAL



Your Touchstone Energy® Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR A GENERAL ADJUSTMENT IN RATES

Case No. 2011-00036

Supplemental Responses to Commission Staff's Initial Request for Information

)

dated

February 18, 2011

FILED: July 21, 2011



BIG RIVERS ELECTRIC CORPORATION

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

Supplemental Response to Commission Staff's Initial Request for Information dated February 18, 2011

July 21, 2011

| 1 | Item 56) | Provide any information, as soon as it is known, describing any events |
|----|----------------|--|
| 2 | occurring aft | er the test year that would have a material effect on net operating income, rate |
| 3 | base, and cos | t of capital that is not incorporated in the filed testimony and exhibits. |
| 4 | | |
| 5 | Response) | Attached hereto Big Rivers provides a copy of Moody's Rating Agency Report |
| 6 | of July 18, 20 | 11. |
| 7 | | |
| 8 | | |
| 9 | Witnesses) | C. William Blackburn |
| 10 | | |
| 11 | | |

Case No. 2011-00036 Fourth Supplemental Response to Item PSC 1-56 Witness: C. William Blackburn Page 1 of 1

MOODY'S INVESTORS SERVICE

JULY 18, 201

ISSUER COMMENT

Big Rivers Electric Corporation

Table of Contents:

KEY INDICATORS¹

RATING DRIVERS CORPORATE PROFILE SUMMARY RATING RATIONALE DETAILED RATING CONSIDERATIONS 2 **Financial Flexibility Improved** Following Completion Of Unwind Of Historical Transactions In 2009 2 Coal-Fired Plants Represent Valuable Assets Even As **Environmental Costs Loom** 2 Regulatory Risk Exists; However. 2 Diffects Are Present Whotestic Power Contracts Are A Linchow To Sound Credit Profile 4 CONCERNS ABOUT POTENTIAL LOSS OF SMELTER LOAD CANNOT BE IGNORED 4 LIQUIDITY 5 STRUCTURAL CONSIDERATIONS 6 RATING OUTLOOK 6 WHAT COULD CHANGE THE RATING - UP 6 WHAT COULD CHANGE THE RATING - DOWN 6 OTHER CONSIDERATIONS 6 Mapping To Moody's U.S. Electric Generation & Transmission Cooperatives Rating Methodology 6 RATING FACTORS: 7

Analyst Contacts:

| NEW YORK | 1.212.553.1653 |
|-----------------------------|----------------------|
| Kevin G. Rose | 1 212 553 0389 |
| Vice President-Senior Analy | /st |
| Kevin Rose@moodys.com | |
| Chee Mee Hu | 1.212 553 3665 |
| Managing Director - Project | t and Infrastructure |
| Finance | |
| CheeMee Ha≋ moodys.co | m |

Key Indicators ^[1]

Big Rivers Electric Corporation

| | 2010 | 2009 | 2008 | 3-Year Avg |
|---------------------------|-------|-------|--------|------------|
| TIER ^[2] | 1.2x | 0.9x | 1.5x | 1.2x |
| DSCR ^[2] | 1.5x | 0.9x | 1.2x | 1.2x |
| FFO / Debt | 2.5% | 59.1% | 5.9% | 22.5% |
| FFO + Interest / Interest | 1.4x | 9.1x | 1.8x | 4.2x |
| Equity / Capitalization | 31.8% | 30.8% | -17.4% | 15.1% |

All ratios calculated in accordance with Moody's Electric G&T Cooperative Rating Methodology using Moody's standard adjustments
Moody's definitions may differ from indenture covenants

Rating Drivers

- » Stronger balance sheet resulting from deleveraging following the unwinding of 1998 vintage transactions, which was completed in 2009
- » Ownership of competitively advantaged coal-fired generation plants
- » High industrial concentration to two aluminum smelters
- Rates subject to regulation by the Kentucky Public Service Commission (KPSC); General rate case pending
- » Revenues from electricity sold under long-term wholesale power contracts with member owners

Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky and owned by its three member system distribution cooperatives— Jackson Purchase Energy Corporation; Kenergy Corp; and Meade County Rural Electric Cooperative Corporation. These member system cooperatives provide retail electric power and energy to more than 112,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The Baa1 senior secured rating considers the financial benefits of several steps taken by Big Rivers to unwind a lease and other transactions in 2008 and 2009 wherein its prior deficit net worth turned substantially positive, cash receipts were utilized to reduce debt, and two committed bank credit facilities aggregating \$100 million were established to improve liquidity. Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should continue to support Big Rivers financial performance in keeping with its current rating level, while allowing capital expenditures to be largely met with internally generated funds.

A significant constraint to Big Rivers' rating is that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters (Century Aluminum Company: Corporate Family Rating B3; stable outlook and Rio Tinto Alcan: senior unsecured rating A3; stable outlook), both of whom face credit challenges due to the significant volatility in both metal prices and demand. In addition, these smelters have the option to terminate their respective power purchase arrangements, subject to a one-year notice and other conditions. Big Rivers' rating is further constrained because its rates are regulated by the KPSC, which is atypical for the G&T coop sector.

Detailed Rating Considerations

Financial Flexibility Improved Following Completion Of Unwind Of Historical Transactions In 2009

In 2008, Big Rivers bought out two leveraged lease transactions and in 2009 completed a series of other steps to terminate another lease and other long-term transactions previously involving E.ON U.S. LLC (formerly known as: LG&E Energy Marketing Inc.) and Western Kentucky Energy Corp. These entities previously leased and operated the generating units owned by Big Rivers. In turn, Big Rivers was purchasing the power from these units at generally fixed below market rates to use in servicing the requirements of its three members, exclusive of the load requirements of Kenergy's two large aluminum smelters. At the same time, Big Rivers terminated other agreements and entered into various new arrangements whereby it now sells to Kenergy 850 MW in aggregate for resale to the two aluminum smelters. This arrangement reintroduced a concentration of load risk for Big Rivers. Key credit positives resulting from consummation of all the unwind transactions were as follows: elimination of Big Rivers' deficit net worth, with equity of \$379.4 million at December 31, 2009, which increased to \$386.6 million as of December 31, 2010 compared to a negative \$155 million at 12/31/2008, and partial utilization of the \$505.4 million in cash payments received from E.ON to repay about \$140.2 million of debt owed to the Rural Utilities Service (RUS) and to establish \$252.9 million of reserves. The reserves were comprised of: a \$157 million Economic Reserve for future environmental and fuel cost increases; a \$35 million Transition Reserve to mitigate potential costs if the smelters decide to terminate their agreements or otherwise curtail their load due to reduced aluminum production; and a \$60.9 million Rural Economic Reserve, which would be used over two years to provide credits to rural customers upon full utilization of the Economic Reserve.

As part of the unwind process, Big Rivers completed the buyout of leveraged leases with Bank of America and Phillip Morris Capital Corporation (PMCC) during 2008. Among the positive credit effects of the buyouts were removal of \$922 million of defeased obligations (about \$735 million of which was off-balance sheet), and removal of exposure to Ambac, albeit at a net cost of \$120 million, including a \$12 million PMCC note. We note, however, that part of the cash payment from E.ON upon consummation of unwinding all the various transactions included full reimbursement of Big Rivers' lease buyout costs, and the \$16 million remaining deferred loss on reacquired debt was written off.

Under a contract times interest earned ratio (TIER) arrangement with the two smelters, Big Rivers is targeting a minimum TIER of 1.24x, which would leave ample cushion under its financial covenants and positioning itself favorably among its similarly rated peers. Under current market conditions, we expect that Big Rivers would file for rate relief as necessary, in the event that TIER drops below the 1.24x target.

Coal-Fired Plants Represent Valuable Assets Even As Environmental Costs Loom

Big Rivers owns generating capacity of about 1,444 megawatts (MW) in four substantially coal-fired plants. Total power capacity is about 1,824 MW, including rights to about 202 MW of coal-fired capacity from Henderson Municipal Power and Light (HMP&L) Station Two and about 178 MW of contracted hydro capacity from Southeastern Power Administration. The economics of power produced from these sources enables Big Rivers to maintain a solid competitive advantage in the Southeast and even more so when compared to other regions around the country. The consistently high capacity factors and efficient operations of the assets results in average system wholesale rates to members around \$36 per MWh (including the beneficial effects of the member rate stability mechanism), which translates to member retail rates to residential customers around 8 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty with regard to future environmental regulations, including the form and substance those will take, the timing for implementation, and the amount of related costs to comply. We note that the Economic Reserve should help mitigate some of the need for initial rate increases to cover future compliance costs.

Regulatory Risk Exists; However, Offsets Are Present

Big Rivers is subject to regulation for rate setting purposes by the KPSC, which is atypical for the sector and can pose challenges in getting timely rate relief if and when needed. We view the existence of certain fuel and purchased power cost adjustment mechanisms available to Big Rivers as favorable to its credit profile since they can temper risk of cost recovery shortfalls if there is a mismatch relative to existing rate levels. Although Big Rivers did not file for a general rate increase in 2010, additional revenues were generated under the fuel adjustment clause and through use of a portion of the various reserve funds. In keeping with the KPSC order issued on March 6, 2009 requiring Big Rivers to file for a general review of its financial operations and rates by July 16, 2012 (i.e. three years from the closing of the unwind transaction), Big Rivers filed a wholesale tariff rate case with the KPSC on March 1, 2011. The rate case is intended to bolster wholesale margins, while also addressing increased depreciation costs, administrative costs tied to joining the Midwest Independent Transmission System Operator (MISO) as outlined in more detail below, and maintenance costs incurred during scheduled generation plant outages. According to the filing, the requested increase in member wholesale tariff rates would equate to an estimated 6.85% (approximately \$30 million) increase in total member revenue. Hearings have been scheduled for July 26th and 27th and a decision is expected in August 2011, with new rates to be effective September 1, 2011. If the case is not decided in this time line, the regulatory process allows for interim rates to be put into effect, subject to refund. According to management at Big Rivers, the cooperative has not had a wholesale tariff rate increase in 20 years and its existing depreciation study and tariffs have been in place since July 1998. We will continue to

3

MOODY'S INVESTORS SERVICE

monitor the proceedings in the pending case to determine the degree of supportiveness the KPSC provides for this request. Significant shortfalls that compromise Big Rivers ability to achieve timely and full recovery of its costs of service and anticipated financial results could pressure its credit quality. The timing of future rate cases is likely to be influenced primarily by the outcome of future environmental assessments.

Wholesale Power Contracts Are A Linchpin To Sound Credit Profile

The substantial revenues derived under Big Rivers' long-term wholesale contracts with its members will continue as the contracts were extended by an additional 20 years to December 31, 2043 when the unwind of transactions were completed in 2009. The low cost power provided under the contracts makes member disenchantment unlikely, even in the face of potential rate increases in the near term associated with the pending rate case and, in the medium to longer term, due to environmental compliance costs. The currently overall sound member profile provides assurance of this revenue stream, which is integral to servicing Big Rivers' debt. The potential for degradation in the creditworthiness of the smelters is a particular credit concern, only tempered in part by assurances of two month's worth of payment obligations covered by letters of credit from an A1 rated financial institution (or some other form acceptable to Big Rivers) under certain circumstances.

Big Rivers' net margins for 2010 reflected improvement over 2009 results (exclusive of the effects of the unwind transactions on 2009 results) as fundamental results in 2009 were negatively affected by costs related to a planned generation plant outage at the D.B. Wilson plant in Centertown, Kentucky, which included a turbine overhaul. Also, during 2010 a considerable reduction in annual interest expense in line with substantially reduced debt following the unwind and non-operating margins resulting from accounting treatment for certain materials and supplies more than compensated for the effects of lower market prices for off-system sales during 2010 compared to 2009.

On a historical basis, Big Rivers dramatically improved its equity position whereby its equity to total capitalization is now over 30% thanks to significant debt reductions following the unwind. At this level, Big Rivers equity to total capitalization maps to the A category for this metric under the rating Methodology. Based on expected continuation of management's current practice of not returning patronage capital back to members (a credit positive strategy in our view) we anticipate that the equity ratio should continue to improve as net margins are fully retained and little if any new debt is added over the next couple of years. We also note that Big Rivers' historical three-year average metrics such as funds from operations (FFO) to debt and FFO to interest are particularly strong due to the one time effects of the unwind, and are therefore not sustainable at those levels. Assuming the KPSC is supportive of Big Rivers' pending request for an increase in member wholesale tariff rates, then we anticipate that Big Rivers should map on average to the A or Baa ranges for other key metrics, such as the times interest earned, the debt service coverage, FFO to interest and FFO to debt ratios. We would view a lack of substantial support for timely and full recovery of costs of service in rate case proceedings as a credit negative, which could cause downward pressure on the ratings for Big Rivers.

Concerns About Potential Loss Of Smelter Load Cannot Be Ignored

Under historical operating conditions, the two smelters served by Kenergy can be expected to consume over 7 million MWh of energy annually, representing a substantial load concentration risk. As noted above, this risk is a significant constraint to Big Rivers' rating, making its operating and risk profile rather unique compared to peers. With Big Rivers' ongoing transmission capacity upgrade projects nearing completion (expected by Q-4 2011), either of the two smelters could serve a one-year notice of

MOODY'S INVESTORS SERVICE

termination of their contract at any time. Given the cost effective power being provided by Big Rivers to allow Kenergy to service this load, we do not currently expect the smelters to exercise this option. Moreover, in December 2010 Big Rivers became a transmission owning member of the Midwest Independent Transmission System Operator (MISO), thereby enhancing its reliability and ensuring compliance with mandated emergency reserve requirements established by regulators. This step, the anticipated completion of expansion of its own transmission lines in Q-4 2011 and legislation to permit sales to non-members, when coupled with the low cost of the power, should enhance Big Rivers' ability to move excess power off system in the event that the smelters cancel their contracts or otherwise reduce load due to curtailment of aluminum production due to market and economic conditions. To the latter point, during 2009, Century Aluminum of Kentucky arranged for the orderly curtailment of one of its five potlines, pending improvement in economic conditions. Following improved economic and market conditions, Century completed its restart of the fifth potline in May 2011. During the period of time that Century Aluminum's potline was shut down, Big Rivers moved to sell into the open market the approximately 87 megawatts of capacity it would otherwise have been providing to Kenergy for service to the one Century Aluminum pot line.

Liquidity

MOODY'S INVESTORS SERVICE

Big Rivers supplements its internally generated funds with \$100 million of unsecured committed revolver capacity, with National Rural Utilities Cooperative Finance Corporation (NRUCFC) and CoBank providing \$50 million each. The NRUCFC and CoBank facilities, which expire on July 16, 2014 and July 16, 2012, respectively, replaced the smaller \$15 million facility previously provided by NRUCFC, which was terminated upon completion of the unwind transactions in 2009. The \$50 million NRUCFC facility provides for issuance of up to \$10 million of letters of credit. We view the significant increase in available bank credit as credit positive. As of May 31, 2011 Big Rivers had approximately \$67 million of unrestricted cash and equivalents on its books, and had substantial unused capacity under the two credit facilities as the only usage related to \$5.6 million of letters of credit outstanding with NRUCFC. Assuming little change to future usage of the bank facilities and the cash position, as well as no change to management's current policy of not returning patronage capital back to members, we anticipate that Big Rivers should be able to largely fund its anticipated short-term working capital needs, capital expenditures of about \$52 million, and current maturities of long term debt of around \$7 million during 2011 without the need for new debt. Big Rivers does, however, face a more material RUS long-term debt maturity of about \$76 million in 2012, most of which we anticipate will be refinanced and the balance retired. We also note that the CoBank facility expires within the next 12 months and we anticipate that Big Rivers will renew the facility well ahead of the expiration date.

The quality of the alternate liquidity provided by the bank revolvers benefits from the multi-year tenor at the time they were arranged and the absence of any onerous financial covenants, which largely mirror the financial covenants in existing debt documents. Big Rivers is in compliance with those covenants and we expect that to remain so in the foreseeable future. Additionally, the NRUCFC facility benefits from no ongoing material adverse change (MAC) clause; however, the CoBank facility is considered of lesser quality because of the ongoing nature of its MAC clause related to each drawdown. We would view an amendment to the CoBank revolver to eliminate the ongoing applicability of the MAC clause as part of the renewal and extension process to be a credit positive step. There are no applicable rating triggers in any of the facilities that could cause acceleration or puts of obligations; however, a ratings based pricing grid applies.

Structural Considerations

MOODY'S INVESTORS SERVICE

As part of the unwinding of various transactions completed in 2009, Big Rivers replaced the previously existing RUS mortgage with a new senior secured indenture. Under the current senior secured indenture RUS and all senior secured debt holders are on equal footing in terms of priority of claim and lien on assets. The current senior secured indenture provides Big Rivers with the flexibility to access public debt markets without first obtaining a case specific RUS lien accommodation, while retaining the right to request approval from the RUS for additional direct borrowings under the RUS loan program, if they choose to do so. Given persistent questions about the availability of funds under the federally subsidized RUS loan program, we consider the added flexibility of the current senior secured indenture to be credit positive.

Rating Outlook

The stable rating outlook is based on Big Rivers' successful completion of the unwind transactions, thereby improving its financial profile and repositioning itself to continue efficiently meeting the needs of its members in the future.

What Could Change the Rating - Up

Given the rating constraints linked to customer load concentration at Kenergy, rate regulation, and looming pressures tied to environmental issues, a rating upgrade is unlikely in the foreseeable future. Changes to eliminate rate regulation of cooperatives in Kentucky could contribute to a positive action, especially if it coincides with improvement in market conditions for the aluminum smelters and sustained improvement of FFO to interest and debt metrics to near 2.3x and 8%, respectively, on average.

What Could Change the Rating - Down

Loss of significant load (i.e. the smelters) that is not otherwise compensated for through off system power sales could contribute to a negative action, as would lack of regulatory support for substantial and timely recovery of costs. In terms of credit metrics, if FFO to interest and debt falls below 2x and 5%, respectively, for a sustained period of time, then rating pressure could result.

Other Considerations

Mapping To Moody's U.S. Electric Generation & Transmission Cooperatives Rating Methodology

Big Rivers' mapping under Moody's U.S. Electric Generation & Transmission Cooperative rating Methodology appears below and is based on historical data through December 31, 2010. The Indicated Rating for Big Rivers' senior most obligations under the Methodology is currently A2 and relies on the aforementioned historical quantitative data and qualitative assessments. In particular we note that the A2 Indicated Rating reflects improvement over the Baa2 Indicated Rating level from historical published reports, which were based on historical data only through 2008. We note that the improvement in the Indicated Rating under the Methodology largely stems from better scores for the factors relating to dependence on purchased power and financial metrics such as equity as a percentage

of capitalization, FFO to debt and FFO to interest, all of which improved upon completion of the unwind transactions. Notwithstanding a currently higher Indicated Rating for Big Rivers under the Methodology compared to its actual rating, the unique risks relating to Big Rivers load concentration to the smelters and the fact that it is subject to rate regulation by the KPSC will likely persist and continue to constrain its rating level in the future.

Rating Factors:

| Big Rivers Electric Corporation | | | | | | |
|---|-------|-------|-------|---------------------------------------|----|---------|
| U.S. Electric Generation & Transmission Cooperatives | Aaa | Aa | А | Baa | Ba | В |
| Factor 1: Wholesale Power Contracts & Regulatory Status (20%) | | | | | | |
| a) % Member Load Served & Regulatory Status | | | х | | | |
| Factor 2: Rate Flexibility (20%) | | | | | | |
| a) Board Involvement / Rate Adjustment Mechanism | | | | Х | | |
| b) Purchased Power / Sales % | | 19% | | | | |
| c) New Build Capex (% Net PP&E) | | Х | | | | |
| d) Rate Shock Exposure | | | | | | Х |
| Factor 3: Member / Owner Profile (10%) | | | | | | |
| a) Residential Sales / Total Sales | | | | | | 16% |
| b) Members' Consolidated Equity / Capitalization | | | | 36% | | |
| Factor 4: 3-Year Average Financial Metrics (40%) | | | | | | |
| a) TIER | | | | 1.2x | | |
| b) DSC | | | 1.2x | | | |
| c) FFO / Debt | 22.5% | | | | | |
| d) FFO / Interest | 4.2x | | | | | |
| e) Equity / Capitalization | | | | 15.1% | | |
| Factor 5: Size (10%) | | | | | | |
| a) MWh Sales (Millions of MWhs) | | | 12.0 | · · · · · · · · · · · · · · · · · · · | | |
| b) Net PP&E (\$billions) | | | \$1.1 | | | |
| Rating: | | | | | | ******* |
| a) Indicated Rating from Methodology | | | A2 | ******* | | |
| b) Actual Rating Assigned (Senior Secured) | | ····· | | Baa1 | | |

JULY 18. 2011

7

Report Number: 134388

Author Kevin Rose Production Associate Cassina Brooks

© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ('MIS') CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR NUCETOR, MIS ISSUES ITS CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR NUESTOR. MIS ISSUES ITS CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR NUESTOR. MIS ISSUES ITS CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR NUESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR. WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. ALL INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED. TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is botained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS' without warranty of any kind. MOODY'S adopts all necessary measures so that the information LUBEPRICH on there aptropriste, independent thrid-party sources. However, MOODY'S is not an auditor and cannot in every instance independentity verify or validate in

construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain alfiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at <u>www.moodys.com</u> under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document to its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK".

MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K. which is wholly owned by Moody's Overseas Holdings Inc , a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating if in doubt you should contact your financial or other professional adviser.

MOODY'S INVESTORS SERVICE

JULY 18. 2011

8

MOODY'S INVESTORS SERVICE

JULY 18, 2011

ISSUER COMMENT

Big Rivers Electric Corporation

Table of Contents:

| KEY INDICATORS ^I | 1 |
|------------------------------------|---|
| RATING DRIVERS | 1 |
| CORPORATE PROFILE | 1 |
| SUMMARY RATING RATIONALE | 2 |
| DETAILED RATING CONSIDERATIONS | 2 |
| Financial Flexibility Improved | |
| Following Completion Of Unwind | |
| Of Historical Transactions In 2009 | 2 |
| Coal-Fired Plants Represent | |
| Valuable Assets Even As | |
| Environmental Costs Loom | 3 |
| Regulatory Risk Exists; However. | |
| Diffsets Are Present | 3 |
| Whatesate Power Contracts Are | |
| A Linchpin To Sound Credit Profile | 4 |
| CONCERNS ABOUT POTENTIAL | |
| LOSS OF SMELTER LOAD CANNOT | |
| BE IGNORED | 4 |
| LIQUIDITY | 5 |
| STRUCTURAL CONSIDERATIONS | 6 |
| RATING OUTLOOK | 6 |
| WHAT COULD CHANGE THE | |
| RATING - UP | 6 |
| WHAT COULD CHANGE THE | |
| RATING - DOWN | 6 |
| OTHER CONSIDERATIONS | 6 |
| Mapping To Moody's U.S. Electric | |
| Generation & Transmission | |
| Cooperatives Rating Methodology | 6 |
| RATING FACTORS: | 7 |

Analyst Contacts:

| NEW YORK | 1.212 553.1653 |
|--------------------------------------|-----------------------|
| Kevin G. Rose | 1 212 553 0389 |
| Vice President-Senior Ana | lysi |
| Kevin Rose@moodys.com | 7 |
| Chee Mee Hu | 1.212.553.3665 |
| Managing Director – Proje Finance | et and infrastructure |
| ChecMee Hust moodys co | 201 |

Key Indicators^[1]

Big Rivers Electric Corporation

| | 2010 | 2009 | 2008 | 3-Year Avg |
|---------------------------|-------|-------|--------|------------|
| TIER ^[2] | 1.2x | 0.9x | 1.5x | 1.2x |
| DSCR ^[2] | 1.5x | 0.9x | 1.2x | 1.2x |
| FFO / Debt | 2.5% | 59.1% | 5.9% | 22.5% |
| FFO + Interest / Interest | 1.4x | 9.1x | 1.8x | 4.2x |
| Equity / Capitalization | 31.8% | 30.8% | -17.4% | 15.1% |

[1] All ratios calculated in accordance with Moody's Electric G&T Cooperative Rating Methodology using Moody's standard adjustments [2] Moody's definitions may differ from indenture covenants

Rating Drivers

- » Stronger balance sheet resulting from deleveraging following the unwinding of 1998 vintage transactions, which was completed in 2009
- » Ownership of competitively advantaged coal-fired generation plants
- » High industrial concentration to two aluminum smelters
- Rates subject to regulation by the Kentucky Public Service Commission (KPSC); General rate case pending
- » Revenues from electricity sold under long-term wholesale power contracts with member owners

Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky and owned by its three member system distribution cooperatives— Jackson Purchase Energy Corporation; Kenergy Corp; and Meade County Rural Electric Cooperative Corporation. These member system cooperatives provide retail electric power and energy to more than 112,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The Baa1 senior secured rating considers the financial benefits of several steps taken by Big Rivers to unwind a lease and other transactions in 2008 and 2009 wherein its prior deficit net worth turned substantially positive, cash receipts were utilized to reduce debt, and two committed bank credit facilities aggregating \$100 million were established to improve liquidity. Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should continue to support Big Rivers financial performance in keeping with its current rating level, while allowing capital expenditures to be largely met with internally generated funds.

A significant constraint to Big Rivers' rating is that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters (Century Aluminum Company: Corporate Family Rating B3; stable outlook and Rio Tinto Alcan: senior unsecured rating A3; stable outlook), both of whom face credit challenges due to the significant volatility in both metal prices and demand. In addition, these smelters have the option to terminate their respective power purchase arrangements, subject to a one-year notice and other conditions. Big Rivers' rating is further constrained because its rates are regulated by the KPSC, which is atypical for the G&T coop sector.

Detailed Rating Considerations

Financial Flexibility Improved Following Completion Of Unwind Of Historical Transactions In 2009

In 2008, Big Rivers bought out two leveraged lease transactions and in 2009 completed a series of other steps to terminate another lease and other long-term transactions previously involving E.ON U.S. LLC (formerly known as: LG&E Energy Marketing Inc.) and Western Kentucky Energy Corp. These entities previously leased and operated the generating units owned by Big Rivers. In turn, Big Rivers was purchasing the power from these units at generally fixed below market rates to use in servicing the requirements of its three members, exclusive of the load requirements of Kenergy's two large aluminum smelters. At the same time, Big Rivers terminated other agreements and entered into various new arrangements whereby it now sells to Kenergy 850 MW in aggregate for resale to the two aluminum smelters. This arrangement reintroduced a concentration of load risk for Big Rivers. Key credit positives resulting from consummation of all the unwind transactions were as follows: elimination of Big Rivers' deficit net worth, with equity of \$379.4 million at December 31, 2009, which increased to \$386.6 million as of December 31, 2010 compared to a negative \$155 million at 12/31/2008, and partial utilization of the \$505.4 million in cash payments received from E.ON to repay about \$140.2 million of debt owed to the Rural Utilities Service (RUS) and to establish \$252.9 million of reserves. The reserves were comprised of: a \$157 million Economic Reserve for future environmental and fuel cost increases; a \$35 million Transition Reserve to mitigate potential costs if the smelters decide to terminate their agreements or otherwise curtail their load due to reduced aluminum production; and a \$60.9 million Rural Economic Reserve, which would be used over two years to provide credits to rural customers upon full utilization of the Economic Reserve.

As part of the unwind process, Big Rivers completed the buyout of leveraged leases with Bank of America and Phillip Morris Capital Corporation (PMCC) during 2008. Among the positive credit effects of the buyouts were removal of \$922 million of defeased obligations (about \$735 million of which was off-balance sheet), and removal of exposure to Ambac, albeit at a net cost of \$120 million, including a \$12 million PMCC note. We note, however, that part of the cash payment from E.ON upon consummation of unwinding all the various transactions included full reimbursement of Big Rivers' lease buyout costs, and the \$16 million remaining deferred loss on reacquired debt was written off.

Under a contract times interest earned ratio (TIER) arrangement with the two smelters, Big Rivers is targeting a minimum TIER of 1.24x, which would leave ample cushion under its financial covenants and positioning itself favorably among its similarly rated peers. Under current market conditions, we expect that Big Rivers would file for rate relief as necessary, in the event that TIER drops below the 1.24x target.

Coal-Fired Plants Represent Valuable Assets Even As Environmental Costs Loom

Big Rivers owns generating capacity of about 1,444 megawatts (MW) in four substantially coal-fired plants. Total power capacity is about 1,824 MW, including rights to about 202 MW of coal-fired capacity from Henderson Municipal Power and Light (HMP&L) Station Two and about 178 MW of contracted hydro capacity from Southeastern Power Administration. The economics of power produced from these sources enables Big Rivers to maintain a solid competitive advantage in the Southeast and even more so when compared to other regions around the country. The consistently high capacity factors and efficient operations of the assets results in average system wholesale rates to members around \$36 per MWh (including the beneficial effects of the member rate stability mechanism), which translates to member retail rates to residential customers around 8 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty with regard to future environmental regulations, including the form and substance those will take, the timing for implementation, and the amount of related costs to comply. We note that the Economic Reserve should help mitigate some of the need for initial rate increases to cover future compliance costs.

Regulatory Risk Exists; However, Offsets Are Present

Big Rivers is subject to regulation for rate setting purposes by the KPSC, which is atypical for the sector and can pose challenges in getting timely rate relief if and when needed. We view the existence of certain fuel and purchased power cost adjustment mechanisms available to Big Rivers as favorable to its credit profile since they can temper risk of cost recovery shortfalls if there is a mismatch relative to existing rate levels. Although Big Rivers did not file for a general rate increase in 2010, additional revenues were generated under the fuel adjustment clause and through use of a portion of the various reserve funds. In keeping with the KPSC order issued on March 6, 2009 requiring Big Rivers to file for a general review of its financial operations and rates by July 16, 2012 (i.e. three years from the closing of the unwind transaction), Big Rivers filed a wholesale tariff rate case with the KPSC on March 1, 2011. The rate case is intended to bolster wholesale margins, while also addressing increased depreciation costs, administrative costs tied to joining the Midwest Independent Transmission System Operator (MISO) as outlined in more detail below, and maintenance costs incurred during scheduled generation plant outages. According to the filing, the requested increase in member wholesale tariff rates would equate to an estimated 6.85% (approximately \$30 million) increase in total member revenue. Hearings have been scheduled for July 26th and 27th and a decision is expected in August 2011, with new rates to be effective September 1, 2011. If the case is not decided in this time line, the regulatory process allows for interim rates to be put into effect, subject to refund. According to management at Big Rivers, the cooperative has not had a wholesale tariff rate increase in 20 years and its existing depreciation study and tariffs have been in place since July 1998. We will continue to

MOODY'S INVESTORS SERVICE

monitor the proceedings in the pending case to determine the degree of supportiveness the KPSC provides for this request. Significant shortfalls that compromise Big Rivers ability to achieve timely and full recovery of its costs of service and anticipated financial results could pressure its credit quality. The timing of future rate cases is likely to be influenced primarily by the outcome of future environmental assessments.

Wholesale Power Contracts Are A Linchpin To Sound Credit Profile

The substantial revenues derived under Big Rivers' long-term wholesale contracts with its members will continue as the contracts were extended by an additional 20 years to December 31, 2043 when the unwind of transactions were completed in 2009. The low cost power provided under the contracts makes member disenchantment unlikely, even in the face of potential rate increases in the near term associated with the pending rate case and, in the medium to longer term, due to environmental compliance costs. The currently overall sound member profile provides assurance of this revenue stream, which is integral to servicing Big Rivers' debt. The potential for degradation in the creditworthiness of the smelters is a particular credit concern, only tempered in part by assurances of two month's worth of payment obligations covered by letters of credit from an A1 rated financial institution (or some other form acceptable to Big Rivers) under certain circumstances.

Big Rivers' net margins for 2010 reflected improvement over 2009 results (exclusive of the effects of the unwind transactions on 2009 results) as fundamental results in 2009 were negatively affected by costs related to a planned generation plant outage at the D.B. Wilson plant in Centertown, Kentucky, which included a turbine overhaul. Also, during 2010 a considerable reduction in annual interest expense in line with substantially reduced debt following the unwind and non-operating margins resulting from accounting treatment for certain materials and supplies more than compensated for the effects of lower market prices for off-system sales during 2010 compared to 2009.

On a historical basis, Big Rivers dramatically improved its equity position whereby its equity to total capitalization is now over 30% thanks to significant debt reductions following the unwind. At this level, Big Rivers equity to total capitalization maps to the A category for this metric under the rating Methodology. Based on expected continuation of management's current practice of not returning patronage capital back to members (a credit positive strategy in our view) we anticipate that the equity ratio should continue to improve as net margins are fully retained and little if any new debt is added over the next couple of years. We also note that Big Rivers' historical three-year average metrics such as funds from operations (FFO) to debt and FFO to interest are particularly strong due to the one time effects of the unwind, and are therefore not sustainable at those levels. Assuming the KPSC is supportive of Big Rivers' pending request for an increase in member wholesale tariff rates, then we anticipate that Big Rivers should map on average to the A or Baa ranges for other key metrics, such as the times interest earned, the debt service coverage, FFO to interest and FFO to debt ratios. We would view a lack of substantial support for timely and full recovery of costs of service in rate case proceedings as a credit negative, which could cause downward pressure on the ratings for Big Rivers.

Concerns About Potential Loss Of Smelter Load Cannot Be Ignored

Under historical operating conditions, the two smelters served by Kenergy can be expected to consume over 7 million MWh of energy annually, representing a substantial load concentration risk. As noted above, this risk is a significant constraint to Big Rivers' rating, making its operating and risk profile rather unique compared to peers. With Big Rivers' ongoing transmission capacity upgrade projects nearing completion (expected by Q-4 2011), either of the two smelters could serve a one-year notice of termination of their contract at any time. Given the cost effective power being provided by Big Rivers to allow Kenergy to service this load, we do not currently expect the smelters to exercise this option. Moreover, in December 2010 Big Rivers became a transmission owning member of the Midwest Independent Transmission System Operator (MISO), thereby enhancing its reliability and ensuring compliance with mandated emergency reserve requirements established by regulators. This step, the anticipated completion of expansion of its own transmission lines in Q-4 2011 and legislation to permit sales to non-members, when coupled with the low cost of the power, should enhance Big Rivers' ability to move excess power off system in the event that the smelters cancel their contracts or otherwise reduce load due to curtailment of aluminum production due to market and economic conditions. To the latter point, during 2009, Century Aluminum of Kentucky arranged for the orderly curtailment of one of its five pollines, pending improvement in economic conditions. Following improved economic and market conditions, Century completed its restart of the fifth potline in May 2011. During the period of time that Century Aluminum's potline was shur down, Big Rivers moved to sell into the open market the approximately 87 megawatts of capacity it would otherwise have been providing to Kenergy for service to the one Century Aluminum pot line.

Liquidity

MOODY'S INVESTORS SERVICE

Big Rivers supplements its internally generated funds with \$100 million of unsecured committed revolver capacity, with National Rural Utilities Cooperative Finance Corporation (NRUCFC) and CoBank providing \$50 million each. The NRUCFC and CoBank facilities, which expire on July 16, 2014 and July 16, 2012, respectively, replaced the smaller \$15 million facility previously provided by NRUCFC, which was terminated upon completion of the unwind transactions in 2009. The \$50 million NRUCFC facility provides for issuance of up to \$10 million of letters of credit. We view the significant increase in available bank credit as credit positive. As of May 31, 2011 Big Rivers had approximately \$67 million of unrestricted cash and equivalents on its books, and had substantial unused capacity under the two credit facilities as the only usage related to \$5.6 million of letters of credit outstanding with NRUCFC. Assuming little change to future usage of the bank facilities and the cash position, as well as no change to management's current policy of not returning patronage capital back to members, we anticipate that Big Rivers should be able to largely fund its anticipated short-term working capital needs, capital expenditures of about \$52 million, and current maturities of long term debt of around \$7 million during 2011 without the need for new debt. Big Rivers does, however, face a more material RUS long-term debt maturity of about \$76 million in 2012, most of which we anticipate will be refinanced and the balance retired. We also note that the CoBank facility expires within the next 12 months and we anticipate that Big Rivers will renew the facility well ahead of the expiration date.

The quality of the alternate liquidity provided by the bank revolvers benefits from the multi-year tenor at the time they were arranged and the absence of any onerous financial covenants, which largely mirror the financial covenants in existing debt documents. Big Rivers is in compliance with those covenants and we expect that to remain so in the foreseeable future. Additionally, the NRUCFC facility benefits from no ongoing material adverse change (MAC) clause; however, the CoBank facility is considered of lesser quality because of the ongoing nature of its MAC clause related to each drawdown. We would view an amendment to the CoBank revolver to eliminate the ongoing applicability of the MAC clause as part of the renewal and extension process to be a credit positive step. There are no applicable rating triggers in any of the facilities that could cause acceleration or puts of obligations; however, a ratings based pricing grid applies.

Structural Considerations

MOODY'S INVESTORS SERVICE

As part of the unwinding of various transactions completed in 2009, Big Rivers replaced the previously existing RUS mortgage with a new senior secured indenture. Under the current senior secured indenture RUS and all senior secured debt holders are on equal footing in terms of priority of claim and lien on assets. The current senior secured indenture provides Big Rivers with the flexibility to access public debt markets without first obtaining a case specific RUS lien accommodation, while retaining the right to request approval from the RUS for additional direct borrowings under the RUS loan program, if they choose to do so. Given persistent questions about the availability of funds under the federally subsidized RUS loan program, we consider the added flexibility of the current senior secured indenture to be credit positive.

Rating Outlook

The stable rating outlook is based on Big Rivers' successful completion of the unwind transactions, thereby improving its financial profile and repositioning itself to continue efficiently meeting the needs of its members in the future.

What Could Change the Rating - Up

Given the rating constraints linked to customer load concentration at Kenergy, rate regulation, and looming pressures tied to environmental issues, a rating upgrade is unlikely in the foreseeable future. Changes to eliminate rate regulation of cooperatives in Kentucky could contribute to a positive action, especially if it coincides with improvement in market conditions for the aluminum smelters and sustained improvement of FFO to interest and debt metrics to near 2.3x and 8%, respectively, on average.

What Could Change the Rating - Down

Loss of significant load (i.e. the smelters) that is not otherwise compensated for through off system power sales could contribute to a negative action, as would lack of regulatory support for substantial and timely recovery of costs. In terms of credit metrics, if FFO to interest and debt falls below 2x and 5%, respectively, for a sustained period of time, then rating pressure could result.

Other Considerations

Mapping To Moody's U.S. Electric Generation & Transmission Cooperatives Rating Methodology

Big Rivers' mapping under Moody's U.S. Electric Generation & Transmission Cooperative rating Methodology appears below and is based on historical data through December 31, 2010. The Indicated Rating for Big Rivers' senior most obligations under the Methodology is currently A2 and relies on the aforementioned historical quantitative data and qualitative assessments. In particular we note that the A2 Indicated Rating reflects improvement over the Baa2 Indicated Rating level from historical published reports, which were based on historical data only through 2008. We note that the improvement in the Indicated Rating under the Methodology largely stems from better scores for the factors relating to dependence on purchased power and financial metrics such as equity as a percentage of capitalization, FFO to debt and FFO to interest, all of which improved upon completion of the unwind transactions. Notwithstanding a currently higher Indicated Rating for Big Rivers under the Methodology compared to its actual rating, the unique risks relating to Big Rivers load concentration to the smelters and the fact that it is subject to rate regulation by the KPSC will likely persist and continue to constrain its rating level in the future.

Rating Factors:

MOODY'S INVESTORS SERVICE

| Big Rivers Electric Corporation | | | | | | |
|---|-------|-----|-------|-------|----|-----|
| U.S. Electric Generation & Transmission Cooperatives | Aaa | Aa | Α | Baa | Ba | В |
| Factor 1: Wholesale Power Contracts & Regulatory Status (20%) | | | | | | |
| a) % Member Load Served & Regulatory Status | | | х | | | |
| Factor 2: Rate Flexibility (20%) | | | | | | |
| a) Board Involvement / Rate Adjustment Mechanism | | | | х | | |
| b) Purchased Power / Sales % | | 19% | | | | |
| c) New Build Capex (% Net PP&E) | | Х | | | | |
| d) Rate Shock Exposure | | | | | | Х |
| Factor 3: Member / Owner Profile (10%) | | | | | | |
| a) Residential Sales / Total Sales | | | | | | 16% |
| b) Members' Consolidated Equity / Capitalization | | | | 36% | | |
| Factor 4: 3-Year Average Financial Metrics (40%) | | | | | | |
| a) TIER | | | | 1.2x | | |
| b) DSC | | | 1.2x | | | |
| c) FFO / Debt | 22.5% | | | | | |
| d) FFO / Interest | 4.2x | | | | | |
| e) Equity / Capitalization | | | | 15.1% | | |
| Factor 5: Size (10%) | | | | | | |
| a) MWh Sales (Millions of MWhs) | | | 12.0 | | | |
| b) Net PP&E (\$billions) | | | \$1.1 | | | |
| Rating: | | | | | | |
| a) Indicated Rating from Methodology | | | A2 | | | |
| b) Actual Rating Assigned (Senior Secured) | | | | Baa1 | | |

JULY 18, 2011

7

| | Report Number: 134388 | | |
|---------|---|---|---|
| | Author Kevín Rose | Production Associate Cassina Brooks | |
| | CREDIT RATINGS ARE MOODY'S INVESTOR RISK OF ENTITIES, CREDIT COMMITMENTS AN ENTITY MAY NOT MEET ITS CONTRACT FINANCIAL LOSS IN THE EVENT OF DEFAU LIMITED TO: LIQUIDITY RISK, MARKET VAL CURRENT OR HISTORICAL FACT. CREDIT R RATINGS ARE NOT RECOMMENDATIONS I NOT COMMENT ON THE SUITABILITY OF J RATINGS WITH THE EXPECTATION AND U EVALUATION OF EACH SECURITY THAT IS ALL INFORMATION CONTAINED HERIN ISP OF SUCH INFORMATION MAY BE COPIED OF DISSEMINATED. REDISTRIBUTED OR RESOLD PART, IN ANY FORM OR MANNER OR BY ANY CONSENT. All information contained herein is of the possibility of human or mechanical error without warranty of any kind. MOODY'S adop sufficient quality and from sources MOODY'S. However, MOODY'S is not an auditor and can process. Under no circumstances shall MOODY caused by, resulting from, or relating to, any er control of MOODY'S or any of its directors, off analysis, interpretation, communication, public consequential. compensatory or incidental dar in advance of the possibility of such damages, reporting analysis, projections, and other obsec construed soley as, statements of opinion and user of the information contained herein must or selling. NO WARRANTY, EXPRESS OR IMPL FITNESS FOR ANY PARTICULAR PURPOSE OF | ts licensors and affiliates (collectively, "MOODY'S"). All rights r SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RE OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT UAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND LT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, JE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT TINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIA O PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. C DIRECTOR SUBSEQUENT USE TO WILL MAKE ITS OU JUNEST MENT FOR ANY PARTICULAR INVESTOR. MIS US DERSTANDING THAT EACH INVESTOR WILL MAKE ITS OU JNDER CONSIDERATION FOR PURCHASE, HOLDING, OR S ROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPY OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANS OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOS ONATOPED FOR SUBSEQUENT USE FOR ANY SUCH PURPOS MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY Obtained by MOODY'S form sources believed by it to be accura as well as other factors, however, all information contained he s all necessary measures so that the information it uses in assig onsiders to be reliable including, when appropriate, independer to in every instance independently verify or validate information ("S have any liability to any person or entity for (a) any loss or d to rin (negligent or otherwise) or other circumstance or contingen ticers, emplayees or agents in connection with the procurement, atlon or delivery of any such information, otb) any direct, indi ages whatsoever (including without limitation, lost profits), eve esulting from the use of or inability to use, any such information to statements of fact or recommendations to purchase, sell or make its own study and evaluation of each security it may cons D, AS TO THE ACCURACY, IMELINESS, COMPLETENESS, MER ANY AND | LATIVE FUTURE CREI RISK AS THE RISK TH ANY ESTIMATED INCLUDING BUT NC STATEMENTS OF AL ADVICE, AND CREI REDIT RATINGS DO SUES ITS CREDIT WN STUDY AND SALE. RIGHT LAW, AND NO WITED, TRANSFERRED E, IN WHOLE OR IN "S PRIOR WRITTEN Te and reliable. Because rein is provided "AS IS" rining a credit rating is c in third-party sources. on received in the rating amage in whole or in p or within or outside the third-party sources. In thore outside the relin area direction. Compilable en if MOODY'S is advis n. The area, financia en if MOODY'S is advis n. The area, financia there in area must be rold any securities. Ea lider purchasing, holdin |
| | securities (including corporate and municipal b prior to assignment of any rating, agreed to pa approximately \$2,500,000. MCO and MIS also rating processes. Information regarding certain entities who hold ratings from MIS and have al annually at <u>www.moodys.com</u> under the headi Affiliation Policy." | diary of Moody's Corporation ("MCO"), hereby discloses that m ands, detentures, notes and commercial paper) and preferred si to MIS for appraisal and rating services rendered by it fees rang maintain policies and procedures to address the independence affiliations that may exist between directors of MCO and rated to publicly reported to the SEC an ownership interest in MCO of 1g "Shareholder Relations — Corporate Governance — Director | tock rated by MIS have ging from \$1,500 to of MIS's ratings and entities, and between f more than 5%, is post and Shareholder |
| | which holds Australian Financial Services Lice within the meaning of section 761G of the Co represent to MOODY'S that you are, or are acc the entity you represent will directly or Indire section 761G of the Corporations Act 2001. Notwithstanding the foregoing, credit ratings a | t is by MOODY'S affiliate, Moody's Investors Service Pty Limit nse no. 336969. This document is intended to be provided or rporations Act 2001. By continuing to access this document fr sesing the document as a representative of, a "wholesale client" tty disseminate this document or its contents to "retail client ssigned on and after October 1, 2010 by Moody's Japan K.K. ("M titlies, credit commitments, or debt or debt-like securities. In | nly to "wholesale clien rom within Australia, y " and that neither you r s" within the meaning /JKK") are MJKK's curre |
| | foregoing statements shall be deemed to be re MJKK is a wholly owned credit rating agency Holdings Inc., a wholly owned subsidiary of MC | ılaced with "МЈКК". subsidiary of Moody's Group Japan G.K., which is wholly own О. | ned by Moody's Overse |
| Moody's | any form of security that is available to retail | vorthiness or a debt obligation of the issuer, not on the equity investors. It would be dangerous for retail investors to make Id contact your financial or other professional adviser. | |