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June 1, 2012

RECEIVED

JUN 01 2012

PUBLIC SERVICE COMMISSION

Via Federal Express

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

Re: *In the Matter of: Application of Big Rivers Electric Corporation for Approval of its 2012 Environmental Compliance Plan, for Approval of its Amended Environmental Cost Recovery Surcharge Tariff, for Certificates of Public Convenience and Necessity, and for Authority to Establish a Regulatory Account,* P.S.C. Case No. 2012-00063

Dear Mr. DeRouen:

Enclosed for filing are an original and ten copies of Big Rivers Electric Corporation's (i) response to Kentucky Industrial Utility Customers, Inc.'s initial data requests, (ii) response to Attorney General's initial data requests, (iii) response to Public Service Commission's first request for information, (iv) response to Sierra Club's first requests for information, (v) a Petition for Confidential Treatment for certain documents being filed with the responses, and (vi) a motion to deviate from the requirement that all documents filed in response to data requests be furnished in paper form. Copies of this letter and all enclosures have been served on each of the persons listed on the attached service list. A copy of the information for which confidential treatment is sought has also been served on each party that has entered into Big Rivers' confidentiality agreement.

Sincerely yours,

James M. Miller

James M. Miller

JMM/ej
Enclosures

cc: Mark A. Bailey
Albert Yockey

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

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PSC Case No. 2012-00063

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BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

Patrick N. Augustine

COMMONWEALTH OF VIRGINIA)
COUNTY OF FAIRFAX)

SUBSCRIBED AND SWORN TO before me by Patrick N. Augustine on this the 30 day of May, 2012.

Notary Public, Commonwealth of Virginia
My Commission Expires June 30, 2013

725149

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

Brian J. Azman

STATE OF INDIANA)
)
COUNTY OF HAMILTON)

SUBSCRIBED AND SWORN TO before me by Brian J. Azman on this the 29th day of May, 2012.

Beth A. Burrows
Resident Of
Marion County
My Commission Expires:
8/24/2016

Beth A. Burrows

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

Robert W Berry

Robert W. Berry

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Robert W. Berry on this the 31 day of May, 2012.

Joy P. Wright

Notary Public, Ky. State at Large
My Commission Expires 7-3-14

Notary Public, Kentucky State-At-Large
My Commission Expires: July 3, 2014
ID 421951

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

William DePriest

STATE OF ILLINOIS)
COUNTY OF COOK)

SUBSCRIBED AND SWORN TO before me by William DePriest on this the 30 day of May, 2012.

Tira L. Seals
Notary Public,
State of Illinois
My Commission Expires May 4, 2015

OFFICIAL SEAL
TIRA L SEALS
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/04/15

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

I, David G. Crockett, 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.

David G. Crockett
David G. Crockett

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by David G. Crockett on this the 31st day of May, 2012.

April R. Johnson
Notary Public, Ky. State at Large
My Commission Expires 8-9-2014

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

Mark A. Hite
Mark A. Hite

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Mark A. Hite on this the 31 day of May, 2012.

Joy P. Wright
Notary Public, Ky. State at Large
My Commission Expires 7-3-14

Notary Public, Kentucky State-At-Large
My Commission Expires: July 3, 2014
ID 421951

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

Thomas L. Shaw
Thomas L. Shaw

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Thomas L. Shaw on this the 31st day of May, 2012.

Joy P. Wright
Notary Public, Ky. State at Large
My Commission Expires 7-3-14

Notary Public, Kentucky State-At-Large
My Commission Expires: July 3, 2014
ID 421951

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN AND REVISIONS TO ITS ENVIRONMENTAL SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT

CASE NO. 2012-00063

VERIFICATION

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

John Wolfram

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by John Wolfram on this the 31st day of May, 2012.

Notary Public, Ky. State at Large
My Commission Expires 8-9-2014

ORIGINAL

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

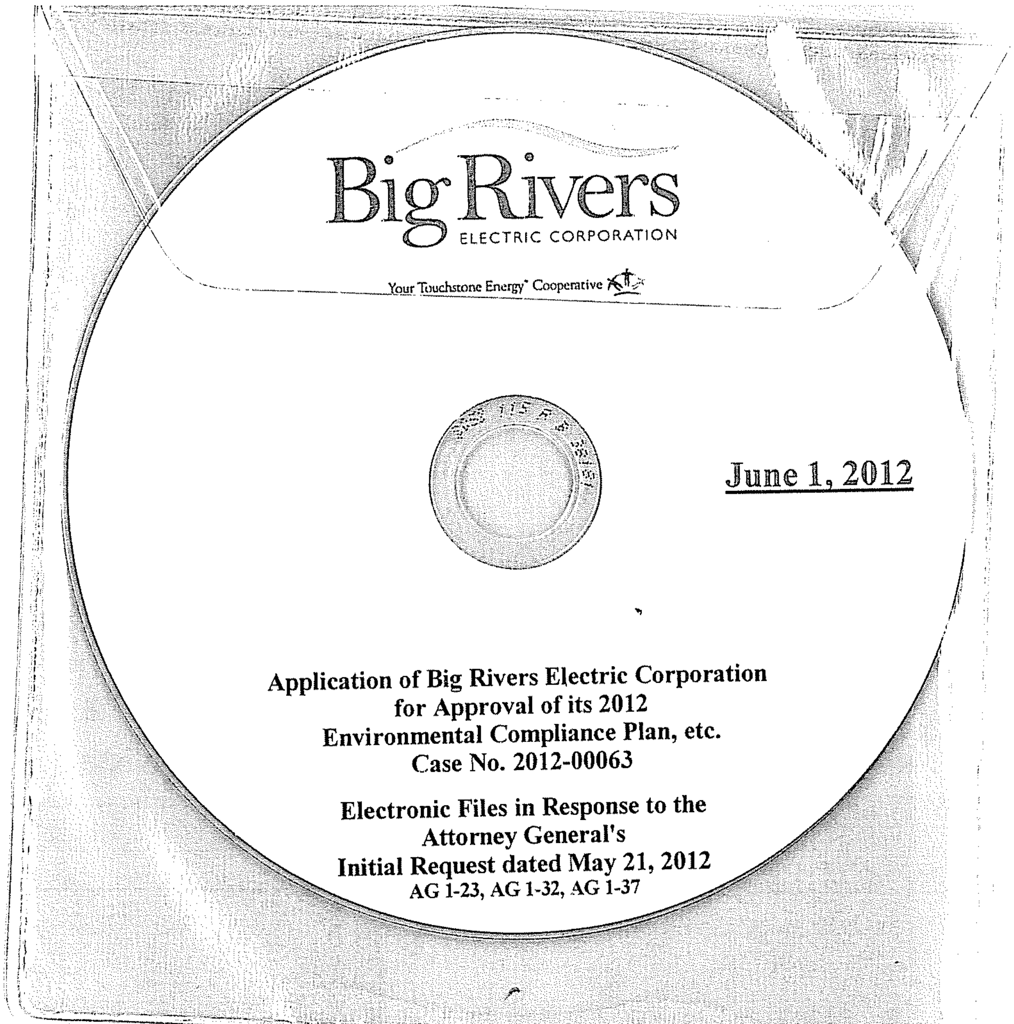
APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT	)	Case No. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

Volume 1 of 2

FILED: June 1, 2012

ORIGINAL



BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Response to the Office of the Attorney General's Initial Request for Information dated May 21, 2012

June 1, 2012

Information filed on CD accompanying responses

AG 1-23 - Big Rivers 2011 Load Forecast	
AG 1-32 - BR Series 2010A Offering Statement	
AG 1-37 - Big Rivers 2010 Financial Statements	
AG 1-37 - Big Rivers 2010 Notes to Financial Statements	
AG 1-37 - Big Rivers 2010 Financial Statements	
AG 1-37 - Big Rivers 2010 Notes to Financial Statements	

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
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Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 1) *What is the actual, average usage for BREC's rural class of customers for the past five years?*

a. Provide a chart depicting the amount by which each such customer's bill will increase, both in a dollar amount, and on a percentage basis. The percentage basis should reflect the percent of increase based on the company's current ECR billings. This should be provided on the basis of BREC's wholesale rates.

b. Provide also the information indicated in subpart (a), above, broken down by the three member cooperative's data for each of their own average rural class customers. The percentage basis should reflect the percent of increase based on each member cooperative's current ECR billings.

Response) Please see the attached chart.

a. Please refer to Exhibit Wolfram-6 found in the Direct Testimony of John Wolfram, which compares 2016 rates by customer class in the "Base Case" to rates in the "Build Case". The difference in the 2016 rates is due to the "2012 Plan" net cost and is expressed as a percentage of 2016 "Base Case" rates and as a percentage of 2012

"Base Case" rates. Also, please see Item 19b of these responses for a calculation of the average monthly dollar increase per customer class.

b. The data for each rate class shown in Exhibit Wolfram-6 is generally applicable to all three member systems. Any slight variations from these averages would stem from differences in the consumption or load factor of individual end use consumers.

Witnesses) Mark A. Hite and John Wolfram

Big Rivers Electric Corporation
Case No. 2012-00063
kWh Sales - 2007 through 2011

	kWh					Annual Average
	2007	2008	2009	2010	2011	
Jackson Purchase	695,662,146	691,948,270	639,603,159	701,840,419	676,059,720	681,022,743
Kenergy	1,235,848,654	1,218,627,832	1,144,106,864	1,270,263,388	1,214,794,683	1,216,728,284
Meade Co	474,935,520	476,339,850	455,734,839	509,286,126	480,251,350	479,309,537
Total Rural	2,406,446,320	2,386,915,952	2,239,444,862	2,481,389,933	2,371,105,753	2,377,060,564
Rural Average Monthly	200,537,193	198,909,663	186,620,405	206,782,494	197,592,146	
Large Industrials	921,358,614	925,793,095	919,587,084	930,167,974	973,093,235	934,000,000
Large Industrial Average Monthly	76,779,885	77,149,425	76,632,257	77,513,998	81,091,103	
Smelters			2,860,380,926	6,348,430,860	6,854,820,053	
Average Monthly			520,069,259	529,035,905	571,235,004	

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 2) *What is the actual, average monthly usage for BREC's large industrial class customers of for the past five years?*

a. *Provide a chart depicting the amount by which each such customer's bill will increase, both in a dollar amount, and on a percentage basis. The percentage basis should reflect the percent of increase based on the company's current ECR billings. This should be provided on the basis of BREC's wholesale rates.*

b. *Provide also the information indicated in subpart (a), above, broken down by the three member cooperative's data for each of their own average rural class customers. The percentage basis should reflect the percent of increase based on each member cooperative's current ECR billings.*

Response) Please see the chart attached to Item 1.

a, b. Please see the response to Item 1.

Witnesses) Mark A. Hite and John Wolfram

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 3) *What is the actual, average monthly usage for the two smelters for the past five years?*

a. Provide a chart depicting the amount by which both smelter's bill will increase, both in a dollar amount, and on a percentage basis. The percentage basis should reflect the percent of increase based on the company's current ECR billings. This should be provided on the basis of BREC's wholesale rates.

b. If the smelters' ECR sums are actually billed by Kenergy, provide data depicting the projected increases, both in dollar amounts and on a percentage basis. The percentage basis should reflect the percent of increase based on each member cooperative's current ECR billings.

Response) Please see the chart attached to Item 1.

a,b. Please see the response to Item 1.

Witnesses) Mark A. Hite and John Wolfram

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Response to the Office of the Attorney General's Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 4) ***State whether the cost estimates in BREC's filing include any estimates for any predicted, or any potential escalation of labor and materials. If so, provide all such data, together with any and all assumptions upon which any such estimate was based. Provide all such information in an Excel spreadsheet, with all formulae intact.***

Response) Capital costs and O&M costs were based on 2011 pricing. A capital cost escalation rate of 2.5% and an O&M cost escalation rate of 2.5% were assumed in all calculations. This data is included in the economic evaluation parameters defined in Exhibit DePriest – 2, Table 1-1.

Witness) William DePriest

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 5) *Please reference the application in general. State to what extent, if any, BREC considered the availability and cost of purchasing power instead of retrofitting any one, or all of its existing generating units. Provide this information in a chart, per each generating unit, with one column depicting the total sum of all project(s) for that unit which are the subject of this filing, and in another column depict any and all projections of costs for purchased power to replace the generation from each generating unit. The chart should go forward in time for ten (10) years. If not, why not? If so, please explain in detail including any cost studies, analyses, etc.*

a. If the company has not conducted any studies regarding costs for replacement power, state in complete detail why not.

Response) As described in Mr. Hite's testimony, Big Rivers did run a scenario to purchase generation in lieu of retrofitting its generating units for CSAPR compliance. This is referred to as the "Buy Case" first discussed on page 6 of Mr. Hite's testimony.

Since MATS requires all units to meet an emission rate, it is not practical to comply with MATS by reducing generation. Big Rivers would have to retire all units and either purchase generation or add new generation to comply with MATS without making modifications to existing units.

Witness) Robert W. Berry

Item 6) ***If the proposed deviation from BREC's ECR methodology is approved, will the smelters in essence receive special treatment that they do not otherwise receive under the applicant's current methodology?***

Response) No. The reason for changing Big Rivers' environmental surcharge cost allocation to a total adjusted revenue basis is that the existing kWh cost allocation basis will no longer be appropriate because of the capital costs included in the 2012 Plan. For example, in 2016, 100% ($43.4 million) of all current plan environmental surcharge eligible costs are variable, or kWh based. Following the 2012 Plan being completed, in 2016, it is estimated that 34% ($27.2 million) of the total environmental surcharge eligible costs will be fixed and 66% ($53.0 million) will be variable. Allocating fixed costs on a kWh basis is not consistent with the widely accepted regulatory principle that fixed costs should be recovered through fixed charges (such as a demand charge) and variable costs should be recovered through variable charges (such as energy or per-kWh charges).

Witnesses) Mark A. Hite and John Wolfram

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 7) *Reference the filing in general. Please state whether the company anticipates any plant of any type or sort to be decommissioned and/or retired. If so, please state whether the projected costs thereof are included in the total costs which are the subject of this filing.*

a. With regard to any decommissioning / retirement of plant, provide a chart depicting the impact of these costs, broken down by ratepayer class. Provide this information both in wholesale rates BREC will charge its members, as well as in retail rates the three member cooperatives will charge to their customers, broken down by ratepayer class.

b. With regard to any decommissioning / retirement, provide the impact this will have on BREC's depreciation rates.

Response) Big Rivers does not anticipate any of its power plants being decommissioned and/or retired in its entirety. Big Rivers does estimate that $49.185 million in gross plant will be retired from the Wilson scrubber, as discussed in the testimonies of Mr. Hite and Mr. Wolfram.

a. Not applicable.

b. Not applicable.

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
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Response to the Office of the Attorney General's
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Dated May 21, 2012

June 1, 2012

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
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Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 8) *Please refer to the Application at p. 7, paragraph 16. Please identify where in the 2012 Plan, and where in Mr. Berry's testimony, the estimated capital cost and estimated cost of operation for each of the construction projects listed can be found.*

Response) The estimated capital cost for each project in the 2012 Plan can be found in the last column on the first page of Exhibit Berry – 2, and the estimated O&M cost is also in Exhibit Berry – 2 on page 2 of 2 beginning in the fifth column from the left margin. These costs can also be found in section IV of Mr. Berry's testimony. Section IV is the "Project Overview and Descriptions" section beginning on page 18 of 33 and continuing through line sixteen on page 24 of 33.

Witness) Robert W. Berry

Item 9) *Is the company currently a party or amicus in any lawsuits regarding the EPA regulations which necessitated this filing? If so, please provide complete details.*

Response) No.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 10) *If the Commission adopts the 2012 Plan as proposed by BREC, what are the total costs that BREC is seeking to recover through its environmental surcharge tariff? Please provide a specific dollar amount.*

Response) Please see the response to Item 17.

Witness) John Wolfram

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
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Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 11) *Please identify and provide a copy of the agreement between HMP&L and BREC regarding the cost share allocation of the retrofits to HMPL 1 & 2.*

Response) Please see the documents in Big Rivers' response to Item 48 of KIUC's First Set of Data Requests, and which are provided on a CD accompanying Big Rivers' response to those requests.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 12) *Has BREC investigated or otherwise inquired whether the White House's proposed budget could prevent, impact or otherwise limit RUS funding for the retrofits and other capital projects detailed in the 2012 Plan as proposed? Please provide an explanation for your answer and any communications to or from BREC regarding the White House's proposed budget's impact on RUS funding if it were passed by the U.S. Congress.*

a. Does the White House's proposed budget prevent, impact or otherwise limit RUS funding for new build projects for coal-fired generation? If so, how does it impact RUS funding? Did BREC consider any such possible limitations in devising its 2012 Plan, and if so, how did that information affect the plan? Provide complete details.

Response) Big Rivers is unaware of any current provision in the White House's proposed fiscal year budget ending September 30, 2013, that restricts, prevents, or impacts the potential for Big Rivers' being approved for an RUS loan guarantee for an FFB loan for Big Rivers' 2012 Plan capital projects. During a March 20, 2012, meeting in Washington D.C. between Big Rivers and RUS representatives, Big Rivers asked whether RUS funding would be available to Big Rivers for its

2012 Plan, and the RUS staff said that, subject to Big Rivers fulfilling the application requirements, there would be funds available for those purposes.

a. Big Rivers is not considering a new build coal-fired generation project and has not investigated the availability of RUS funding for such a project.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 13) ***If BREC is unable to obtain RUS financing, what other financing will be used and how will that financing affect the total overall costs to be passed on via the environmental surcharge?***

a. ***Is BREC willing to consider using as much short-term financing as possible, as opposed to long-term financing? If not, explain in detail why not.***

Response) In addition to pursuing RUS financing for its 2012 Plan capital expenditures, Big Rivers is investigating a revolver that would allow for multiple advances that would subsequently bridge to permanent RUS financing, capital market options including a private placement and a public offering, and a structure that allows for numerous long-term loans, generally pursuant to a 2012 Plan funding schedule. A RUS borrowing at 0.125% over the U.S. Treasury rate is the lowest cost option. Note that on March 23, 2012, the 20-year U.S. Treasury rate was 2.41%. The evaluation of Big Rivers' 2012 Plan assumed a borrowing rate of 5.50%, and was based on a capital market financing. Please see Big Rivers' response to Item 29 of the Commission Staff's First Request for Information for additional information regarding the 5.50% interest rate.

a. The risk of utilizing short-term financing is that the current historically low interest rates will rise.

Witness) Mark A. Hite

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
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Item 14) ***Reference the application at paragraph 7 and the application in general. Please provide a comprehensive, detailed summary and timeline pertaining to the applicant's EPA compliance contained within the application. The answer should include the names of any individuals, agents firms or contractors, whether under the direct employment by the applicant, under contract by the applicant, under the supervision of the applicant, or otherwise engaged by the applicant in any fashion who have knowledge of or participated in any way with the compliance plan, including those projects not chosen, in the application. Please provide copies of any and all materials which relate to this question, including but not limited to the following:***

- ***a.*** ***Notice of final rule,***
- ***b.*** ***Preliminary preparation for compliance, including those for any projects abandoned or rejected,***
- ***c.*** ***Preparation schedules for project(s), including any that were rejected or abandoned,***
- ***d.*** ***Costs estimates, including for any projects that were rejected or abandoned,***
- ***e.*** ***Decision making, at any and all stages, including final one(s), and***
- ***f.*** ***Any materials, models, software, studies, and analyses.***

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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June 1, 2012

If any of the materials are in Excel or other form that contain formulae, please provide them with cells intact.

Response) Big Rivers objects to this request on the grounds that it is overly broad and that it seeks information protected by the attorney client and work product privileges. Without waiving this objection, Big Rivers states as follows.

Big Rivers Environmental Compliance Plan is set forth in Exhibit Berry-2. The timeline for compliance is set forth generally in Big Rivers' response to Item 37 of the Commission Staff's First Request for Information. Please see Big Rivers' responses to Item 1 of the Commission Staff's First Request for Information and Items 21 and 25 of these responses for information related to outside firms Big Rivers' has engaged in relation to its compliance plan. Please also see the CD Big Rivers filed with its April 26, 2012, response to KIUC's Motion to Dismiss and the CDs Big Rivers filed May 24, 2012, May 29, 2012, and May 30, 2012, in response to the May 11, 2012, letter from KIUC's counsel to Big Rivers' counsel.

Witness) Robert W. Berry

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 15) ***With regard to any and all materials in the application that pertain to or are based upon modeling, please provide any and all inputs that were chosen as well as those that were not chosen.***

a. ***For any and all inputs used in the modeling, please provide the basis for choosing the use thereof.***
b. ***For any and all inputs which were considered but not used in the modeling, please provide the basis for choosing not to use them.***

Response)

a. Please see the CD Big Rivers' filed May 24, 2012, in response to the May 11, 2012, letter from KIUC's counsel to Big Rivers' counsel.
b. Big Rivers objects to this question because it is overly broad, seeks information which is not relevant to proceeding, and seeks information which is protected by the attorney client and work product privileges.

Witnesses) Robert W. Berry (a) and Counsel (a and b)

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Item 16) ***If any of the materials rejected any particular option for compliance over another option, please provide a detailed summary and timeline pertaining to the applicant's decision to reject the option.***

Response) Big Rivers objects to this question because it is overly broad, seeks information which is not relevant to proceeding, and seeks information which is protected by the attorney client and work product privileges. Without waiving these objections, Big Rivers states as follows:

Big Rivers rejected the option to install SNCR's on the Coleman units due to the operational limitations caused by this technology. Installing SNCR's on these smaller units such as those in the Big Rivers fleet is problematic as it limits the turn down capability, causes premature air heater fouling and the NOx removal efficiency of an SNCR is approximately 50% compared to a SCR removal efficiency of approximately 90%.

Discussions regarding this change between Big Rivers and Sargent & Lundy personnel occurred in November, and December 2011 and January 2012.

In addition to the Coleman SNCR decision, the following options were considered in the Sargent & Lundy study and were evaluated to be not least cost options. They include converting Green units to natural gas, installing the FMC PerNoxide system at Green, and installing low NOx burners at Coleman. Details of this evaluation are in the S&L study, Exhibit DePriest-2.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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June 1, 2012

Item 17) ***Reference the application at paragraph 8. State the specific total amount of the recovery of costs which the company seeks to recover for projects contained in the 2012 plan. Provide also an annual break down of those costs over the life span of the projects.***

Response) Big Rivers is seeking recovery on capital projects totaling $283.49 million, as detailed in Exhibit Hite-2 of the direct testimony of Mark Hite. Specific detail on the breakdown of those project's costs for the years 2012 through 2026 can be found on the ECP tab of the "Build Case" financial model Excel file provided with Big Rivers' April 26, 2012, response to KIUC's motion to dismiss. Please see Big Rivers' response to Item 18 for other costs.

Witness) Mark A. Hite

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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June 1, 2012

Item 18) *Reference the application at paragraph 8 and the application in general. Please provide a detailed breakdown of the following:*

a. O&M costs;
b. Property taxes;
c. Property insurance;
d. Depreciation expense; and
e. "other costs," identifying fully the nature of such "other costs."

Response) Please reference the ECP tab of the "Build Case" financial model Excel file provided with Big Rivers' April 26, 2012, response to KIUC's motion to dismiss. Fixed costs included in the ECP tab are all related to the "2012 Plan" as the current environmental compliance plan contains no fixed cost component. Please note that the variable costs on the ECP tab include variable costs for the current environmental compliance plan and the "2012 Plan".

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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June 1, 2012

Item 19) *Reference the application at paragraph 9 and Wolfram prefiled testimony and exhibits, in particular Wolfram-6. Please provide the following.*

a. The actual average usage per month for each customer class taking service under the tariffs listed on Wolfram-6.

b. The actual average dollar increase per month requested for each customer class taking service under the tariffs listed on Wolfram-6.

Response)

a,b. See attached.

Witness) Mark A. Hite

Big Rivers Electric Corporation
Case No. 2012-00063
Average Monthly Amounts for Customer Classes on Exhibit Wolram-6

	Average Monthly Usage (MWh) 2016	Average Monthly Rate ($/MWh)		Average Monthly Charge		Monthly Charge Increase
		Base Case 2016	Build Case 2016	Base Case 2016	Build Case 2016	
Gross of MRSM and RER Rider						
Rural	209,953	58.89	62.98	12,364,132	13,222,840	858,708
Large Industrial	80,129	51.64	54.80	4,137,862	4,391,069	253,207
Smelter Unadjusted*	609,756	54.45	58.18	33,201,214	35,475,604	2,274,390
Smelter Adjusted	609,756	53.09	55.72	32,371,946	33,975,604	1,603,658
Net of MRSM and RER Rider						
Rural	209,953	51.27	51.27	10,764,290	10,764,290	0
Large Industrial	80,129	51.64	54.80	4,137,862	4,391,069	253,207
Smelter Unadjusted*	609,756	54.45	58.18	33,201,214	35,475,604	2,274,390
Smelter Adjusted	609,756	53.09	55.72	32,371,946	33,975,604	1,603,658

*Smelter Adjusted reflects removal of the TIER Adjustment Charge. The Build Case has lower off-system net sales margin in 2016 due to 2012 Plan costs, causing the Smelters to move up within the TIER bandwidth.

BIG RIVERS ELECTRIC CORPORATION

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Dated May 21, 2012

June 1, 2012

Item 20) ***Reference the application at paragraph 12. State with specificity the efforts undertaken by the applicant to obtain the air permits and the anticipated date of receipt of the air permits noted therein.***

Response) Big Rivers met with John Lyons of the Division for Air Quality on March 5, 2012, to discuss the process by which to modify or amend existing Title V permits for the installation of control equipment. On May 8, 2012, Big Rivers submitted a renewal application for the Title V permit for Wilson station, which addresses the possible installation of a new FGD scrubber. Big Rivers relies on the Division for Air Quality to timely review the applications and to issue the permits; however, Big Rivers understands that the permits could be issued before the end of August.

Big Rivers will submit a Title V permit modification to the Division for Air Quality for the installation of an SCR on Green Station Unit 2 by the end of July 2012.

Witness) Thomas L. Shaw

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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Response to the Office of the Attorney General's
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Item 21) ***Reference the application at paragraph 13. State with specificity the efforts undertaken by the applicant to complete the engineering and design construction of the projects which the applicant has undertaken. In the answer, provide all details including the individuals or entities involved, the costs, the anticipated completion date(s), schedules involved, property procurement process, if any, and all other relevant information for completion of the projects.***

Response) To date, Big Rivers has not entered into any contract with engineering and design firms, equipment suppliers, or construction firms relative to the projects listed in its filing.

Big Rivers has solicited proposals from engineering firms regarding preparation of a RFP for the Wilson FGD replacement project. Proposals were solicited from Burns and McDonnell, Sargent & Lundy, and Black and Veatch.

Big Rivers anticipates selecting one of these vendors during June 2012. Current schedule would involve completion of this RFP by September. Assuming Big Rivers receives an order during the fourth quarter of 2012, Big Rivers would issue the RFP and solicit bids from FGD firms during the last quarter of 2012. The engineering firm selected would assist with bid evaluation and recommendation of successful vendor. Contract award would occur around the end of 2012, with vendor design, manufacture and procurement, and construction following.

The plan is to begin construction during the summer of 2013 (pending issuance of permits) with the replacement FGD in service around January 2016. In addition, Big Rivers will follow similar steps for the other projects included in the filing. Big Rivers anticipates spending $2.35 million for engineering services for the projects included in the Environmental Compliance Plan not including vendor engineering. These costs are included in the total costs proposed for the 2012 Plan in the Application.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Item 22) ***Provide any economically feasibility tests undertaken by the company with regard to the ability of the end-user to pay his/her/its bill and thus the ability of same to continue to take the projected amount of load and not decrease usage thus affecting the overall demand on the system.***

Response) Big Rivers did not calculate any potential erosion in usage by end use consumers that might result from the increase in rates stemming from the rate changes in the requested environmental cost recovery mechanism in this proceeding. Price elasticity analyses are not ordinarily undertaken by Applicants in cases where the proposed rate increases are of the magnitude contemplated in this case.

Witness) John Wolfram

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
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Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 23) ***Provide projected load growth, or lack thereof, for the next ten years for each customer class by tariff. If possible, provide also a breakdown of the information by each distribution cooperative.***

Response) Big Rivers' 2011 Load Forecast provides load growth for the next 5 and 15 year time-frames. The 15 year projected growth rates for peak load are provided below.

Big Rivers Rural	1.3%
Kenergy Rural	1.3%
Jackson Purchase Rural	1.5%
Meade County Rural	1.5%

Big Rivers Direct Serve/Large Industrial	0.0%
Kenergy Direct Serve/Large Industrial	0.0%
Jackson Purchase Direct Serve/Large Industrial	0.0%

Please also see the load forecast projections which are provided on the CD accompanying these responses..

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Response to the Office of the Attorney General's
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Item 24) ***Reference the application at paragraph 15. State with specificity, if known, the anticipated approach, and the likelihood of obtaining same, for the refinancing of the proposed construction projects in the application.***

Response) Please see the Direct Testimony of Mark Hite beginning on page 15, and Big Rivers' response to Item 29 of the Commission Staff's First Request for Information, which address the 2012 Plan financing. There is no refinancing involved. Big Rivers plans to file its Financing Application for its 2012 Plan no earlier than August 2, 2012.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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June 1, 2012

Item 25) ***Reference the application at paragraph 18. State with specificity the time period, the amount, the purpose and the entity associated with the costs incurred in developing the application.***

Response) Please see Big Rivers' response to Item 1 of the Commission Staff's First Request for Information.

Witness) Mark A. Hite

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

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Item 26) *Reference the application at exhibit 2 is which the notice to the ratepayers. Where is the actual dollar amount listed?*

Response) Exhibit Wolfram-6, which was attached to the notice Big Rivers sent to its members (see Exhibit 2 of the application, page 5 of 5), shows the estimated amount of the proposed increase per customer class. Column 1 shows current (2012) rates. Column 2 shows estimated rates in 2016 if Big Rivers does not undertake the 2012 Plan or take any compliance steps outlined in this Application. Column 3 shows estimated rates in 2016 including the projects in the 2012 Plan. Thus, the estimated dollar impact in 2016 of completing the 2012 Plan relative to current (2012) rates can be determined by subtracting the number in column 1 from the number in column 3.

Witness) John Wolfram

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 27) ***Provide copies of any and all correspondence, information, studies, analyses, etc. that were exchanged or communicated between S&L, DPI and BREC related to the work performed by S&L or DPI on behalf of BREC. (In the answer, provide a copy of the contract between BREC and S&L and DPI.)***

Response) Please see the documents in Big Rivers' response to Item 36 of KIUC's First Set of Data Requests, and which are provided on a CD accompanying Big Rivers' responses to those requests, for all correspondence between S&L, DPI and Big Rivers. Please see Big Rivers ' Sargent & Lundy Purchase Order Nos. 203562 and 210260 which are attached hereto. The contracts between Big Rivers and S&L and DPI are provided under a petition for confidential treatment.

Witness) Robert W. Berry

Sargent & Lundy Purchase Order 203562

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
203562	2	1

SHIP TO:
BIG RIVERS ELECTIC CORP
SEBREE STATION - ATTN: WAREHOUSE
9000 HWY 2096
ROBARDS,KY 42452

BILL TO:
BIG RIVERS ELECTIC CORP
SEBREE STATION - ATTN: WAREHOUSE
9000 HWY 2096
ROBARDS,KY 42452

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

VENDOR NO 39288	DELIVER TO	DATE OF ORDER/BUYER 19-APR-11 Foster, Mark	REVISED DATE/BUYER 16-FEB-12 Foster, Mark
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-5565 888-730-6935	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 269-2000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION

Special Instructions: This Purchase Order No. must appear on all invoices, packing lists, cartons and correspondences related to this order

ATTN: TODD HANSSEN (PER JIM GARRETT) REVISED TO ADD LINE 2

TOTAL **CONTINUED**

Mark Foster

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
203562	2	2

SHIP TO:
BIG RIVERS ELECTIC CORP
SEBREE STATION - ATTN: WAREHOUSE
9000 HWY 2096
ROBARDS,KY 42452

BILL TO:
BIG RIVERS ELECTIC CORP
SEBREE STATION - ATTN: WAREHOUSE
9000 HWY 2096
ROBARDS,KY 42452

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

VENDOR NO 39288	DELIVER TO	DATE OF ORDER/BUYER 19-APR-11 Foster, Mark	REVISED DATE/BUYER 16-FEB-12 Foster, Mark
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-5565 888-730-6935	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 269-2000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION
1	NOT TO EXCEED COST OF $189,000.00 BASED ON SARGENT LUNDY PROPOSAL DATED 4/15/2011. TIME AND MATERIAL RATES SECTION 5. SHIP TO:GARRETT, JAMES R	20-APR-11	18900 0	LOT	$ 1.00	$ 189000.00
2	ADDITIONAL WORK AS PROPOSED BY SARGENT AND LUNDY'S 12/11/11 LETTER ADDRESSED TO ERIC ROBESON; SPECIFICALLY ITEMS 1 THROUGH 4 INCLUSIVE OF COST ADJUSTMENTS TO PHASE II PRICING. (LETTER ON FILE.)" SHIP TO:KING, VICKIE QUESTIONS / REPLIES CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO: MARK FOSTER - SEBREE STATION PHONE (270) 844-5565 FAX (888) 730-6935 EMAIL: MARK.FOSTER@BIGRIVERS.COM		1	EACH	$ 30300.00	$ 30300.00

TOTAL $ 219,300.00

Mark Foster

Sargent & Lundy Purchase Order 210260

Big Rivers ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

BLANKET PURCHASE ORDER

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210260	0	1

SHIP TO:
201 Third Street
Henderson,KY 42420

BILL TO:
201 Third Street
Henderson,KY 42420

VENDOR NO	DELIVER TO	DATE OF ORDER/BUYER	REVISED DATE/BUYER
39288		06-MAR-12 Frederick, Dana Leigh	Frederick, Dana Leigh
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-6139 888-514-3178	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 2692000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION

Special Instructions: This Purchase Order No. must appear on all invoices, packing lists, cartons and correspondences related to this order

QUESTIONS / REPLIES CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO: DANA FREDERICK - HEADQUARTERS PHONE (270) 844-6139 FAX (888) 514-3178 EMAIL: DANA.FREDERICK@BIGRIVERS.COM

A signed copy of the General Services Agreement (GSA) is on file at Big Rivers Electric Corporation and is hereby incorporated by reference.

TOTAL CONTINUED

Dana L Frederick

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

BLANKET PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
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SHIP TO:
201 Third Street
Henderson,KY 42420

BILL TO:
201 Third Street
Henderson,KY 42420

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

VENDOR NO 39288	DELIVER TO	DATE OF ORDER/BUYER 06-MAR-12 Frederick, Dana Leigh	REVISED DATE/BUYER Frederick, Dana Leigh
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-6139 888-514-3178	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 2692000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION
1	TO PROVIDE WITNESS TESTIMONY PER 2/17/12 PROPOSAL FOR EMISSION CONTROL EQUIPMENT REQUIRED TO MEET THE REGULATORY REQUIREMENTS ISSUED BY THE EPA IN 2011.			EACH	$ 1.00	$

TOTAL $ 75,000.00

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

BLANKET PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
210260	0	3

SHIP TO:
201 Third Street
Henderson,KY 42420

BILL TO:
201 Third Street
Henderson,KY 42420

VENDOR NO	DELIVER TO	DATE OF ORDER/BUYER	REVISED DATE/BUYER
39288		06-MAR-12 Frederick, Dana Leigh	Frederick, Dana Leigh
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-6139 888-514-3178	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 2692000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION

Dana L Frederick

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

BLANKET PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
210260-1	0	1

SHIP TO:
201 Third Street
Henderson,KY 42420

BILL TO:
201 Third Street
Henderson,KY 42420

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

VENDOR NO	DELIVER TO	DATE OF ORDER/BUYER	REVISED DATE/BUYER
39288		05-APR-12 King, Vickie	King, Vickie
PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-6152	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 269-2000

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION

Special Instructions: This Purchase Order No. must appear on all invoices, packing lists, cartons and correspondences related to this order

QUESTIONS / REPLIES CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO: DANA FREDERICK - HEADQUARTERS PHONE (270) 844-6139 FAX (888) 514-3178 EMAIL: DANA.FREDERICK@BIGRIVERS.COM

TOTAL **CONTINUED**

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

VENDOR: **SARGENT AND LUNDY LLC**
55 EAST MONROE ST
CHICAGO, IL 60603-5780

BLANKET PURCHASE ORDER

PURCHASE ORDER NO	REVISION	PAGE
210260-1	0	2

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VENDOR NO 39288	DELIVER TO	DATE OF ORDER/BUYER 05-APR-12 King, Vickie	REVISED DATE/BUYER King, Vickie
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ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION
1	TO PROVIDE WITNESS TESTIMONY PER 2/17/12 PROPOSAL FOR EMISSION CONTROL EQUIPMENT REQUIRED TO MEET THE REGULATORY REQUIREMENTS ISSUED BY THE EPA IN 2011.		14300	EACH	$ 1.00	$ 14300.00

TOTAL $ 14,300.00

Big Rivers
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Your Touchstone Energy® Cooperative

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CHICAGO, IL 60603-5780

VENDOR NO	DELIVER TO	DATE OF ORDER/BUYER	REVISED DATE/BUYER
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PAYMENT TERMS 30 NET DAYS		BUYER TELEPHONE/FAX 270-844-6152	F.O.B DESTINATION
FREIGHT TERMS PREPAID ADD		SHIP VIA BEST WAY POSSIBLE	VENDOR CONTACT/TELEPHONE (312) 269-2000

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TOTAL **CONTINUED**

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ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION
1	TO PROVIDE WITNESS TESTIMONY PER 2/17/12 PROPOSAL FOR EMISSION CONTROL EQUIPMENT REQUIRED TO MEET THE REGULATORY REQUIREMENTS ISSUED BY THE EPA IN 2011.		18341	EACH	$ 1.00	$ 18341.00

TOTAL $ 18,341.00

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 28) *What is the current cost of the work performed by S&L for BREC?*

Response) Beginning May 2011 and continuing through February 2012, Big Rivers incurred a cost of $218,189 for the S&L study titled Environmental Compliance Study, dated February 13, 2012. In addition, from March 1, 2012 through May 23, 2012, Big Rivers incurred a cost of $32,641 for S&L to assist Big Rivers with this case.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 29) ***What is the expected total cost of the work for BREC by S&L and DPI?***

Response) Per Exhibit Hite-5 of the Direct Testimony of Mark Hite, the expected cost of the work for Big Rivers by S&L and DPI for assistance with Case No. 2012-00063 is $150,000 (including the $32,641 incurred to-date). Note that such amount does not include the cost of the S&L study titled Environmental Compliance Study, dated February 13, 2012. Please see Big Rivers' response to Item 28. In addition to this figure, S&L is being considered along with several other firms (as discussed in response to Item 21 of these responses) for engineering services for the environmental projects identified in the filing. These costs have not been identified yet.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 30) *Please provide copies of any and all communications between BREC and its Member Co-ops regarding the impact of the 2012 Plan on residential ratepayers.*

Response) Please see the documents in Big Rivers' response to Item 36 of KIUC's First Set of Data Requests, and which are provided on a CD accompanying Big Rivers' responses to those requests. Please also see the Big Rivers Board of Directors' meeting presentations, copies of which have been provided in response to Item 43 of KIUC's First Set of Data Requests. The CEOs of Big Rivers' members receive copies of these presentations.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 31) *Please provide copies of all presentations BREC made to rating agencies and/or investment firms between January 1, 2010 and the present.*

Response) Please see attached.

Witness) Mark A. Hite

May 2011 Rate Agency Presentation – Fitch Ratings

Case No. 2012-00063
Attachment for Response to Item AG 1-31
Witness: Mark A. Hite

Presentation to Fitch Ratings
Big Rivers Electric Corporation

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy Cooperative

May-2011

Big Rivers

Participants

Big Rivers Electric Corporation

Mark A. Bailey *President & CEO*

C. William Blackburn *Sr. Vice-President Financial & Energy Services & CFO*

Robert W. Berry *Vice-President Production*

Big Rivers

Meeting Objectives

- Update on Status of Big Rivers Electric Corporation

Big Rivers

Table of Contents

I. Overview of Big Rivers Electric Corporation

II. Review of Unwind Transaction

III. Overview of the Smelters

IV. Financial Projections

Appendix A: Additional Information

Big Rivers

I. Overview of Big Rivers Electric Corporation

Big Rivers

Overview of Big Rivers Electric Corporation

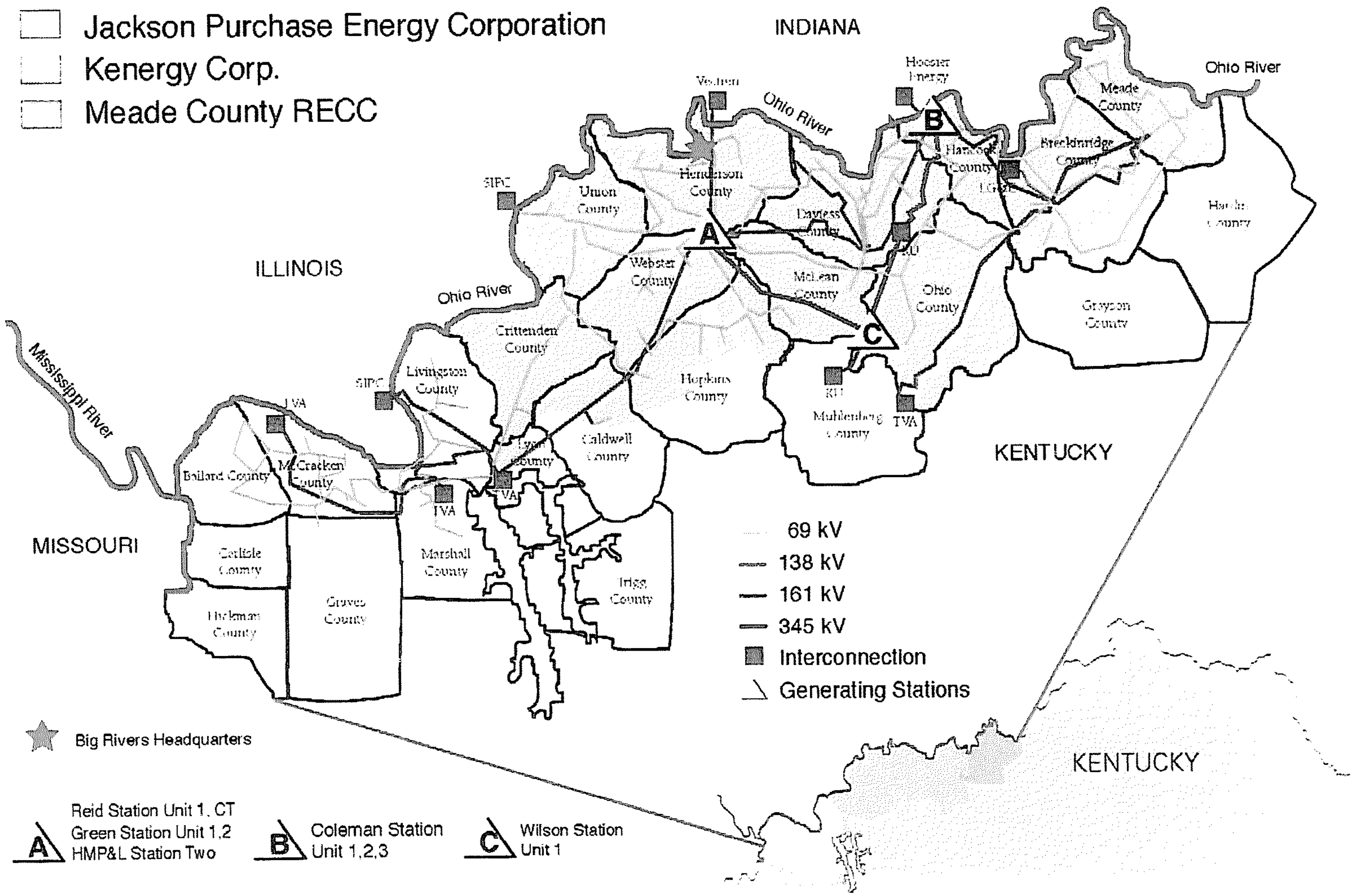
- Big Rivers Electric Corporation ("Big Rivers") was formed in 1961 and is based in Henderson, Kentucky
- Big Rivers supplies wholesale electric generation and transmission service to three electric distribution cooperatives ("Members"):
  - Jackson Purchase Energy Corporation
  - Kenergy Corp. ("Kenergy")
  - Meade County Rural Electric Cooperative Corporation
- Members are local customer-owned cooperatives providing service to approximately 112,500 retail customers on a not-for-profit basis
  - Members serve residential, commercial and industrial customers located in portions of 22 western Kentucky counties
- Big Rivers and its Members are generally regulated by the Kentucky Public Service Commission
- Big Rivers provides capacity and energy to its members through a combination of 5 owned generation stations, one leased generation station and purchased power
  - Net capacity of owned generation – 1,444 MW
  - Net capacity of leased generation – 207 MW
  - Power purchased from SEPA – 178 MW
  - 1,266 miles of transmission lines and 22 substations
  - Midwest ISO membership implementation – Dec. 2010

Key 2010 Statistics

Energy Sales - 11,969 GWh	
Operating Revenues - $527mm	
Total Assets - $1,472mm	
Non-Smelter Member Rate (Excl. MRSM Credit)	$44.26/MWh
Non-Smelter Member Rate Stability Mechanism	($ 7.91/MWh)
Non-Smelter Member Wholesale Rate	$36.35/MWh

Big Rivers

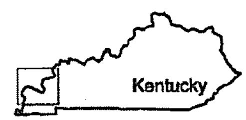
Big Rivers Members' Service Territory

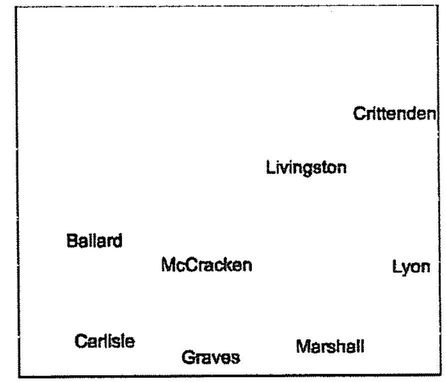


Overview of Jackson Purchase Energy Corporation

Overview Service Territory

- Established in 1937
- Serves approximately 29,000 accounts in portions of 6 counties in Western Kentucky
- Managed by 8 member/consumer elected board serving four-year staggered terms
- Primarily residential & small commercial customer mix
- Most recent residential retail rate increase: July 2008, 9.5%





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$46.5	$41.9	$42.4
Operating Expenses	36.1	34.4	35.4
Net Operating Income[1]	10.4	7.5	7.0
Cash Flow			
Debt Service	4.9	4.9	4.6
Debt Service Coverage Ratio	2.32 x	1.62 x	1.56 x
TIER	2.51 x	1.26 x	1.34 x
Balance Sheet			
Net Utility Plant	$91.5	$87.3	$82.0
Equities/Capitalization	43.6%	39.8%	42.9%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation, Taxes & Interest*

Customer Profile

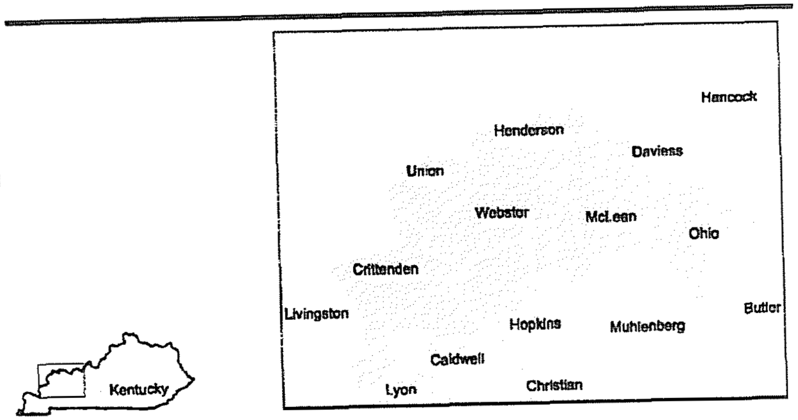
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	441,649	26,053	31,240
Irrigation	356	9	22
Comm. and Ind. (>1,000 kW)	192,112	3,080	11,577
Comm. and Ind. (>1,000 kW)	48,727	7	2,478
Public Lighting	637	3	83
Total	**683,481**	**29,152**	**45,400**

Big Rivers

Overview of Kenergy Corp.

Overview Service Territory

- Established in July 1999 through the consolidation of:
  - Henderson Union Electric Coop. (established 1936), and
  - Green River Electric Corporation (established 1937)
- Serves approximately 55,000 customers in 14 western Kentucky counties along more than 7,000 miles of line
  - Fourth largest electric cooperative in Kentucky in terms of number of customers served
- Managed by 11 member customer-elected board
- Most recent residential retail rate increase: Feb. 2009, 4.0%
- Responsible for supplying Hawesville and Sebree smelters



Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$401.0	$349.8	$359.5
Operating Expenses	381.3	332.9	345.3
Net Operating Income[1]	19.7	16.9	14.2
Cash Flow			
Debt Service	11.6	11.1	11.0
Debt Service Coverage Ratio	1.79 x	1.58 x	1.36 x
TIER	1.95 x	1.48 x	1.13 x
Balance Sheet			
Net Utility Plant	$179.2	$177.5	$174.5
Equities/Capitalization	33.2%	30.3%	29.9%

Source: RUS Form 7 and Audited Financial Statements
[1]Before Depreciation, Taxes & Interest

Customer Profile

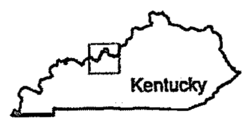
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	812,957	45,201	57,147
Comm. and Ind. (<1,000 kW)	330,907	9,680	22,304
Comm. and Ind. (>1,000 kW)	8,172,897	34	319,742
Public Lighting	1,737	76	280
Total	**9,318,498**	**54,991**	**399,473**

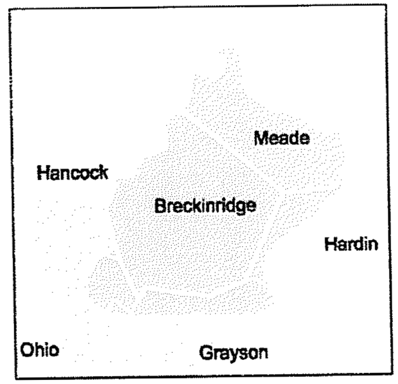
Big Rivers

Overview of Meade County Rural Electric Cooperative

Overview Service Territory

- Established in 1937
- Serves approximately 28,000 customers in portions of 6 Kentucky counties along approximately 2,900 miles of line
- Managed by 7 member customer-elected board
- Primarily residential customer mix
- Most recent residential retail rate increase: Feb. 2011, 3.3%





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$34.6	$31.1	$32.1
Operating Expenses	27.5	24.7	24.8
Net Operating Income[1]	7.1	6.4	7.3
Cash Flow			
Debt Service	4.9	4.8	4.6
Debt Service Coverage Ratio	1.55 x	1.37 x	1.64 x
TIER	2.05 x	1.57 x	2.03 x
Balance Sheet			
Net Utility Plant	$69.9	$66.6	$64.3
Equities/Capitalization	33.5%	32.3%	32.6%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation, Taxes & Interest*

Customer Profile

	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	375,089	26,213	26,177
Comm. and Ind. (<1,000 kW)	103,175	2,048	7,397
Public Lighting	1,103	6	74
Total	**479,367**	**28,267**	**33,648**

Big Rivers

Big Rivers' Available Generation Resources

	Fuel Type	Net Capacity (MW)	Commercial Operation
Owned Generation			
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal / Gas	65	1966
Combustion Turbine	Oil / Gas	65	1979
D.B. Wilson Unit 1	Coal	417	1986
Owned Subtotal		1,444	
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
City's Current Capacity Allocation[1]		(105)	
Leased Subtotal		207	
Total Owned / Leased Generation		1,651	
Purchased Power			
Member's SEPA Allocation	Hydro	178	
Total Capacity		1,829	

[1] *Big Rivers operates Station Two, which is owned by the City of Henderson, and is entitled to all capacity and energy not taken by the City under the terms of a power purchase agreement.*

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Residential Electricity in the Nation

Average Residential Rate – Kentucky
April 2011[1]

Kentucky Utility	Cents / kWh
East Kentucky Power Cooperative	10.54
AEP Kentucky Power	9.43
Louisville Gas and Electric Company	8.61
Duke Energy Kentucky	8.29
Kentucky Utilities Company	8.08

Proposed Big Rivers Residential Rate (including credits)	8.13
Proposed Big Rivers Residential Rate (excluding credits)	8.81

Average Residential Rate – National
January 2011[2]

National Region	Cents / kWh
Pacific Noncontiguous	23.78
New England	16.09
Middle Atlantic	15.06
Pacific Contiguous	12.16
East North Central	10.63
South Atlantic	10.55
West South Central	9.81
Mountain	9.63
East South Central	9.57
West North Central	8.83
Kentucky	8.65
United States Total	**10.99**

[1] *Source: Kentucky Public Service Commission Orders and Filings*
[2] *Source: Energy Information Administration Table 5.6.A*

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Commercial and Industrial Electricity in the Nation

Average Commercial & Industrial Rate – National 2010

National Region	Cents / kWh
Pacific Noncontiguous	19.0
New England	13.9
Middle Atlantic	10.6
Pacific Contiguous	8.9
East North Central	7.7
South Atlantic	7.6
West South Central	7.4
Meade County	**7.2**
East South Central	7.1
Mountain	6.8
West North Central	6.1
Kentucky	**6.0**
Jackson Purchase	**5.8**
Kenergy – excluding Smelters	**4.4**
Kenergy – Smelters	**4.4**

Source: RUS Form 7 and Energy Information Administration

Big Rivers

III. Overview of the Smelters

Big Rivers

Overview of Smelters

- Sebree, Kentucky Smelter (Alcan Primary Products Corporation)
  - Alcan is owned by Rio Tinto, an international mining group, and is Rio Tinto's only U.S. aluminum smelter
  - Commenced operation in 1973
  - Produces 186,000 metric tons of primary aluminum annually from its 3 potlines
  - 600 employees
  - Base contract demand: 368 MW and Projected annual energy consumption: 3.1 TWh
  - Recently announced $37mm bake furnace project
- Hawesville, Kentucky Smelter (Century Aluminum of Kentucky General Partnership)
  - Century is a public company and through its various subsidiaries owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia and Iceland
  - Commenced operation in 1970
  - Produces 244,000 metric tons of primary aluminum annually from its 5 potlines
  - 775 employees
  - Base contract demand: 482 MW and Projected annual energy consumption: 4.2 TWh
  - Fifth potline was energized in March and full utilization is projected in May

Big Rivers

Long-Term Smelter Contracts

- Big Rivers and Kenergy (the Member serving the Smelters) entered into the Smelter Wholesale Power Contracts in which Big Rivers supplies energy to Kenergy for resale to the Smelters through the end of 2023 on a take-or-pay basis, subject to a one-year termination notice from the Smelter(s)
- The two aluminum smelters, owned by Alcan and Century, have a base demand of 850 MW and typically use 98% of the energy
- Energy made available to the Smelters will consist of three types:
  - ***Base Monthly Energy:*** 368 MW hourly for Alcan and 482 MW hourly for Century
  - ***Supplemental Energy:*** 10 MW hourly of interruptible energy to each Smelter
  - ***Back-up Energy:*** Imbalance energy for Kenergy made available to the Smelters
- Charges to the Smelters will also include the following adjustments:
  - Base Rate always 25 cents per MWh over Large Industrial
  - Fuel Adjustment Clause ("FAC") – Adjusts monthly for incremental changes in fuel costs
  - Environmental Surcharge ("ES") – Adjusts monthly for incremental changes in non-fuel variable production expenses (emission allowances, reagents and waste disposal)
  - Purchased Power Adjustment ("PPA") – Adjusts monthly for incremental changes in purchased power costs (non-FAC PPA regulatory account for non-smelter members)
  - TIER Adjustment (described on following page)
  - Surcharges – Mitigate impact of FAC and ES on Non-Smelter Members

Big Rivers

Smelter Agreements TIER Support Calculation

($ in millions)

- 20XX Rebate
  - TIER before adjustment (line 4) exceeds 1.24
  - $18.8mm is available for Rebate, split ratably between Non-Smelter Members and Smelters
  - Maximum TIER Adjustment available is $1.95/MWh

- 2013 TIER Adjustment
  - TIER before adjustment (line 4) is below 1.24
  - $20.36mm is contributed by Smelters via TIER Adjustment or $2.79/MWh
  - Maximum TIER Adjustment available is $2.95/MWh

Sample Rebate and TIER Adjustment Calculation

		20XX	2013
1	**Before Rebate / TIER Adjustment**		
2	Net Margin + Interest Charges	$79.9	$45.7
3	Interest Charges	$49.3	$53.3
4	Contract TIER	1.62x	0.86x
5	**Rebate**		
6	Members	(6.2)	–
7	Smelters	(12.6)	–
8	Total	(18.8)	–
9	**TIER Adjustment**		
10	Smelters	–	$20.4
11	Total	–	$20.4
12	**After Rebate / TIER Adjustment**		
13	Net Margin + Interest Charges	$61.1	$66.1
14	Interest Charges	$49.3	$53.3
15	Contract TIER	1.24x	1.24x

Big Rivers

Smelter Rates ($/MWh) and Bandwidth

Big Rivers

IV. Financial Projections

Big Rivers

Selected Financial Projection Assumptions

- December 31, 2010 Audited Financial Statements
- Reduction of RUS New Note and Ongoing Financing:
  - Borrow $112mm (April 2010 Forecast $60mm) to refinance $60mm of RUS Series A Note and meet other cash requirements in 2012 (assumed at 8.3%)
  - Borrow $270mm (April 2010 Forecast $200mm) to refinance $200mm of RUS Series A Note and meet other cash requirements in 2016 (assumed at 8.3%)
  - Tax-exempt PCBs $83.3mm; refinanced June 2010 at 6% for 20 years
  - Assumes 6% interest on a refinancing of $58.8 tax-exempt PCBs in 2013
- Production and Variable Cost Inputs:
  - Production and variable cost inputs primarily driven by a Production Cost Model prepared by ACES Power Marketing:
    - energy sales revenues
    - costs of variable energy costs production and purchase
  - Offsystem sales comprise 11.9% of total load at an average price of $44.37/MWh for 2011 through 2014
  - Net generation capacity factors average 82.1%; heat rates are projected by Big Rivers at approximately 10,989 btu/ kWh on average
- Fixed Operating Cost Assumptions:
  - Fixed O&M cost inputs have been developed by Big Rivers and encompass production, transmission and administrative & general ("A&G") costs
- Depreciation and Amortization:
  - Proposed average book depreciation rates amortize gross assets over a period in excess of 48 years (down from 53 years), based on a recent depreciation study.
- Capital Expenditures:
  - Annual average of $58.7mm - $48.3mm for production, $7.3mm for transmission and $3.1mm for A&G for 2011 through 2014

Big Rivers

Rate Case

- On March 1, 2011, Big Rivers filed an application for a general rate adjustment with the Kentucky Public Service Commission ("KPSC")
  - Case number 2011-00036
- Procedural schedule established with discovery to be completed and rebuttal testimony filed by July 7, 2011
- Public hearing expected in July
- KPSC Order expected in August
- New Rates effective September 1
  - If the KPSC does not issue an order by this time or if an intervener requests an appeal, the new rates can be implemented subject to refund

Big Rivers

Statement of Operations

($ in millions)

Statement of Operations	2010 Actual	2010 Forecast[1]	Variance
Electric Energy Revenues	$514.5	$522.8	($8.3)
Other Operating Revenue and Revenue	12.8	7.5	5.3
Total Operating Revenues	$527.3	$530.3	($3.0)
Operating Expense – Excluding Fuel	$187.2	$199.2	$12.0
Operating Expense - Fuel	207.7	196.3	(11.4)
Maintenance Expense	46.9	45.4	(1.5)
Depreciation and Amortization	34.2	34.8	0.6
Interest Expense	46.4	47.5	1.1
Other - Net	(2.1)	0.0	2.1
Total Expenses	$520.3	$523.2	$2.9
Net Margins	$7.0	$7.1	($0.1)

[1] *April 2010 Presentation*

Big Rivers

Balance Sheet Pro-Forma

($ in millions)

Balance Sheet	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assets																
Net Utility Plant	$913	$1,078	$1,092	$1,104	$1,126	$1,140	$1,149	$1,141	$1,132	$1,126	$1,119	$1,117	$1,112	$1,107	$1,102	$1,098
Cash & Investments	39	60	45	41	42	44	46	53	72	60	47	38	36	46	46	48
Transition Reserve	0	35	35	0	0	0	0	0	0	0	0	0	0	0	0	0
Economic Reserve	0	148	121	98	72	44	15	0	0	0	0	0	0	0	0	0
Rural Economic Reserve	0	61	62	63	64	65	66	57	32	7	0	0	0	0	0	0
Receivables, Inventories & Other	122	123	117	135	147	152	157	158	170	173	176	180	185	188	193	204
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,406	$1,366	$1,342	$1,335	$1,333	$1,341	$1,341	$1,350
Equities & Liabilities																
Equities	($155)	$379	$387	$393	$400	$415	$422	$437	$444	$454	$465	$477	$483	$498	$514	$527
Debt	987	849	817	798	841	828	815	801	848	821	792	762	731	743	736	729
Deferred Revenue – Economic Reserves	0	206	181	161	136	109	81	57	32	7	0	0	0	0	0	0
Payables & Other	242	71	87	89	74	93	115	114	82	84	85	96	119	100	91	94
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,405	$1,366	$1,342	$1,335	$1,333	$1,346	$1,341	$1,350
Equities / Total Capitalization	(19%)	31%	32%	33%	32%	33%	34%	35%	34%	36%	37%	38%	40%	40%	41%	42%
Equities / Total Capitalization (April 2010 Forecast)			31%	32%	32%	33%	34%	35%	37%	38%	40%	41%	43%	44%	46%	47%

Note: Reflects simultaneous RUS Series A Note refinancings (borrowing and paydown) in 2012 and 2016.

Big Rivers

Contract and Conventional TIER

($ in millions)

	Actual			Forecasted												
Contract TIER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins			$7.0													
Interest Expense			47.1	47.4	48.7	53.3	53.1	52.2	65.1	60.5	58.9	57.2	55.4	54.5	55.2	54.3
Adjustment per Smelter Agreement			(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Numerator for Contract TIER			$53.8													
Denominator- Interest Expense			$47.1	$47.4	$48.7	$53.3	$53.1	$52.2	$65.1	$60.5	$58.9	$57.2	$55.4	$54.5	$55.2	$54.3
Contract TIER			1.14x													
Contract TIER (April 2010 Forecast)			1.14x	1.09x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.22x	1.24x	1.24x	1.20x

Conventional TIER

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins	$27.8	$531.3	$7.0													
Interest Expense	75.2	60.1	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Numerator for Conventional TIER	$103.0	$591.4	$54.1													
Denominator for Contract TIER	$75.2	$60.0	$47.1	$45.9	$46.6	$51.2	$51.0	$50.2	$63.1	$58.4	$56.8	$55.1	$53.3	$52.4	$53.2	$52.3
Conventional TIER	1.37x	9.85x	1.15x													
Conventional TIER (April 2010 Forecast)			1.15x	1.10x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.22x	1.25x	1.25x	1.21x

Big Rivers

Debt Service Coverage

($ in millions)

Debt Service Coverage	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins	27.8	531.3	$7.0													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Depreciation & Amortization	32.7	34.3	36.2	40.1	45.6	46.8	48.1	49.0	49.9	50.9	51.9	53.0	54.1	55.1	56.3	57.4
Numerator for DSCR	135.7	625.6	90.3													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Principal Due for Long-Term Debt	40.8	196.7	14.1	7.3	(35.9)	20.5	21.7	23.0	(38.1)	36.7	38.9	41.2	43.0	0.0	20.0	20.0
Denominator for DSCR	116.0	256.7	61.2													
Debt Service Coverage Ratio	1.17	2.44	1.47	1.73	9.31	1.57	1.46	1.55	4.84	1.25	1.25	1.24	1.18	2.34	1.70	1.70
Cash DSCR (April 2010 Forecast)			1.53	1.63	3.25	1.69	1.71	1.71	1.41	1.56	1.56	1.56	1.53	1.81	1.98	2.02

[1] *Scheduled Principal shown net of RUS New Note refinancings in 2012 and 2016.*

Big Rivers

Cash and Liquidity

Days Cash on Hand ($mm)	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Average Cash Balance	$93.9	$84.6	$87.6	$60.8	$41.6[1]	$42.9	$45.3	$49.8	$62.7[1]	$66.4	$53.6	$42.3	$37.2	$41.2	$46.1	$47.4
RUS Series A Note Prepaid Status	0.0	0.0	23.9	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	0.0	0.0	0.0
Lines of Credit	15.0	100.0	90.0	86.0	100.0	83.0	63.0	63.0	100.0	100.0	100.0	89.0	69.0	89.0	100.0	100.0
Total	$108.9	$184.6	$201.5	$181.[illegible]	$176.6	$160.9	$143.3	$147.8	$197.7	$201.4	$188.6	$166.3	$141.2	$130.2	$146.1	$147.4
Operating Expense	$216.8	$325.7	$467.5	$490.5	$543.7	$569.8	$602.3	$605.0	$641.7	$653.5	$667.2	$688.1	$706.7	$716.0	$734.7	$752.8
Days Liquidity, including Lines of Credit	183	207	157	135	119	103	87	90	113	113	103	88	73	66	73	72
Days Liquidity, excluding Lines of Credit	158	95	87	71	52	50	49	51	56	57	48	41	37	21	23	23
Days Liquidity, including Lines of Credit (April 2010 Forecast)			143	121	111	111	108	114	107	103	102	98	93	93	96	101
Days Liquidity, excluding Lines of Credit (April 2010 Forecast)			67	49	43	43	43	49	45	43	43	40	36	36	41	46

[1] Cash Balance shown net of New RUS Note refinancings in 2012 and 2016.

Big Rivers

Projected Non-Smelter Member Rates

($ /MWh)

	Actual			Projected												
Rate Derivation[1] ($ /MWh)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Smelter Members																
Base Rate	$34.57	$35.68	$35.33													
Amortize Regulatory Account	0.00	0.00	0.00	(0.36)	(1.31)	(1.43)	(0.88)	(0.31)	(0.28)	(0.53)	(0.67)	(0.53)	(0.35)	(0.35)	(0.36)	(0.38)
FAC	0.00	4.45	9.98	10.45	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	0.00	1.05	2.25	3.10	3.48	3.69	3.88	4.13	4.23	4.32	4.49	4.70	4.88	5.14	5.26	5.47
Surcredit	0.00	(1.53)	(3.30)	(3.44)	(4.05)	(4.01)	(3.97)	(3.91)	(3.86)	(4.91)	(5.19)	(5.12)	(5.05)	(4.97)	(4.90)	(4.82)
Rate Stabilization (Economic Reserve)																
Economic Reserve	0.00	(3.97)	(7.91)	(7.09)	(8.02)	(8.50)	(8.54)	(4.21)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rural Economic Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(3.15)	(7.17)	(7.09)	(2.08)	0.00	0.00	0.00	0.00	0.00
Blended Rate	$34.57	$35.68	$36.35													
Blended Rate (April 2010 Forecast)			$36.01	$38.02	$42.97	$43.94	$43.96	$43.84	$48.75	$48.57	$51.02	$56.20	$56.80	$60.01	$60.52	$61.15

[1] *Reflects accrual basis (vs. cash basis).*

Big Rivers

Projected Smelter Rates

Rate Derivation ($/MWh)[1]	Actual		Projected												
Smelters	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Large Industrial Rate @ 98%[2]	$30.18	$29.07													
Additional Smelter Charge	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Base Rate	30.43	29.32													
TIER Adjustment	1.95	1.95	1.95	2.95	2.79	2.95	1.79	3.55	3.55	4.15	4.15	4.15	2.93	4.14	4.75
Non-FAC PPA	(0.56)	(1.18)	(1.10)	(0.47)	(0.58)	(0.58)	(0.56)	(0.56)	(0.56)	(0.38)	(0.49)	(0.42)	(0.31)	(0.45)	(0.37)
FAC	10.38	10.13	10.46	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	2.45	2.26	3.09	3.48	3.69	3.88	4.14	4.24	4.32	4.50	4.71	4.88	5.14	5.25	5.47
Surcharges	1.57	1.57	1.57	1.87	1.87	1.87	1.87	1.87	2.42	2.60	2.60	2.59	2.60	2.60	2.60
Rebate (accrued)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effective Rate	**$46.22**	**$44.05**													
Effective Rate (April 2010 Forecast)		$43.25	$44.61	$49.90	$51.08	$51.92	$53.06	$55.42	$57.98	$59.36	$59.63	$60.66	$61.76	$63.24	$64.47

[1] *Reflects accrual basis (vs. cash basis).*

[2] *Actual may differ from Large Industrial Rate @ 98% load factor if metered energy is lower/higher than contract Base Fixed Energy.*

Appendix A: Additional Information

Big Rivers

Big Rivers' Coal-Fired Power Plants System Performance

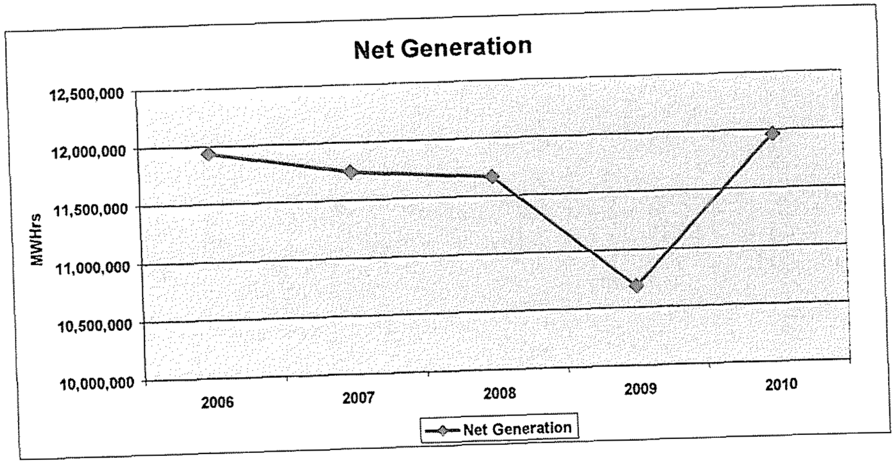
- Eight of the nine coal generating units are equipped with Flue Gas Desulphurization systems (FGDs) to control SO_2 emissions
- Wilson 1, HMP&L 1 and HMP&L 2 are equipped with Selective Catalytic Reduction systems (SCRs) to control NO_x emissions
- System performance is actively benchmarked against the industry utilizing GKS Navigant services. In the most recent benchmarking survey (2007 to 2010 Q3), Big Rivers displayed the following results when comparing O&M costs including fuel.
    - System capacity weighted O&M cost including fuel was - $5/MW less than the median cost ($31.61/MW vs. $36.63/MW).
    - Eight generating units operated below median cost with three of those generating units operating in the best quartile.

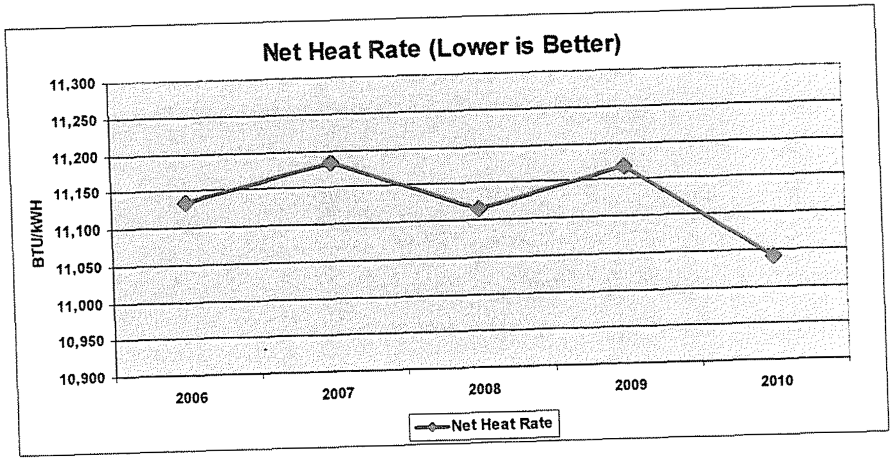
Key Performance Indicators per IEEE Standards (6 Year Averages 2005 thru 2010)

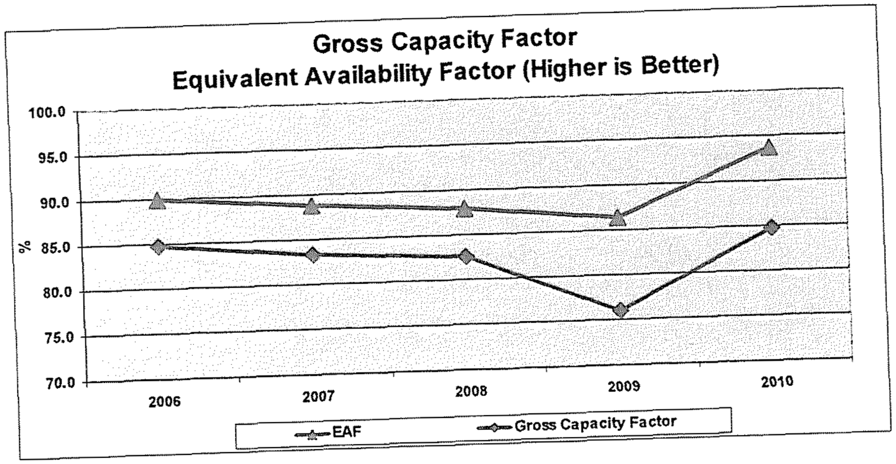
Unit	Net Generation (MWHrs)	Net Heat Rate (BTU/kWH)	Gross Capacity Factor (%)	Equivalent Availability Factor (%)	Equivalent Forced Outage Rate (%)
Coleman 1	944,941	10,702	72.5	87.8	5.2
Coleman 2	887,010	11,577	72.5	90.1	2.9
Coleman 3	983,149	10,600	73.4	88.2	6.1
Green 1	1,800,783	11,118	90.2	93.1	2.2
Green 2	1,708,046	11,278	88.6	92.7	1.6
Henderson 1	1,074,239	10,877	81.3	86.1	7.9
Henderson 2	1,107,773	11,147	80.3	88.5	3.9
Wilson 1	3,143,237	11,262	86.5	87.9	5.2
SYSTEM	**11,649,175**	**11,108**	**82.4**	**89.4**	**4.3**

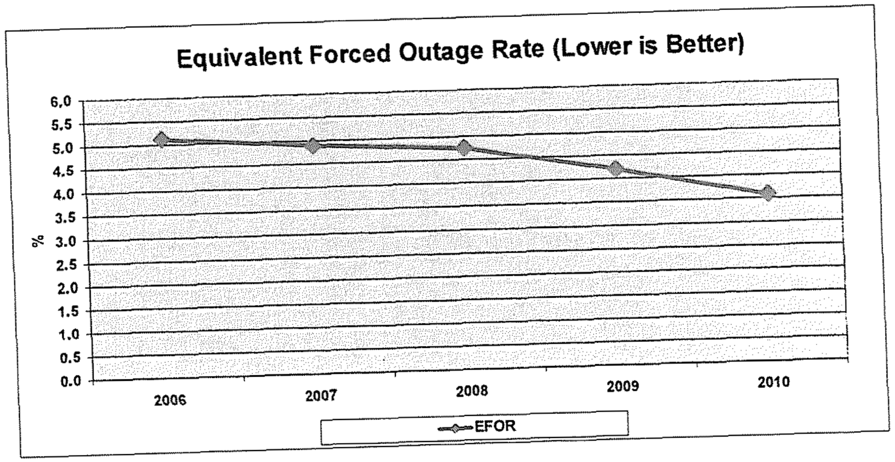
Big Rivers ELECTRIC CORPORATION
Your Touchstone Energy Cooperative

BREC System Performance 2006 - 2010









May 2011 Rating Agency Presentation – Moody's Investor Services

Case No. 2012-00063
Attachment for Response to Item AG 1-31
Witness: Mark A. Hite

Presentation to Moody's Investor Services
Big Rivers Electric Corporation

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

May-2011

Big Rivers

Participants

Big Rivers Electric Corporation

Mark A. Bailey *President & CEO*

C. William Blackburn *Sr. Vice-President Financial & Energy Services & CFO*

Robert W. Berry *Vice-President Production*

Big Rivers

Meeting Objectives

- Update on Status of Big Rivers Electric Corporation

Big Rivers

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II. Review of Unwind Transaction

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Big Rivers

I. Overview of Big Rivers Electric Corporation

Big Rivers

Overview of Big Rivers Electric Corporation

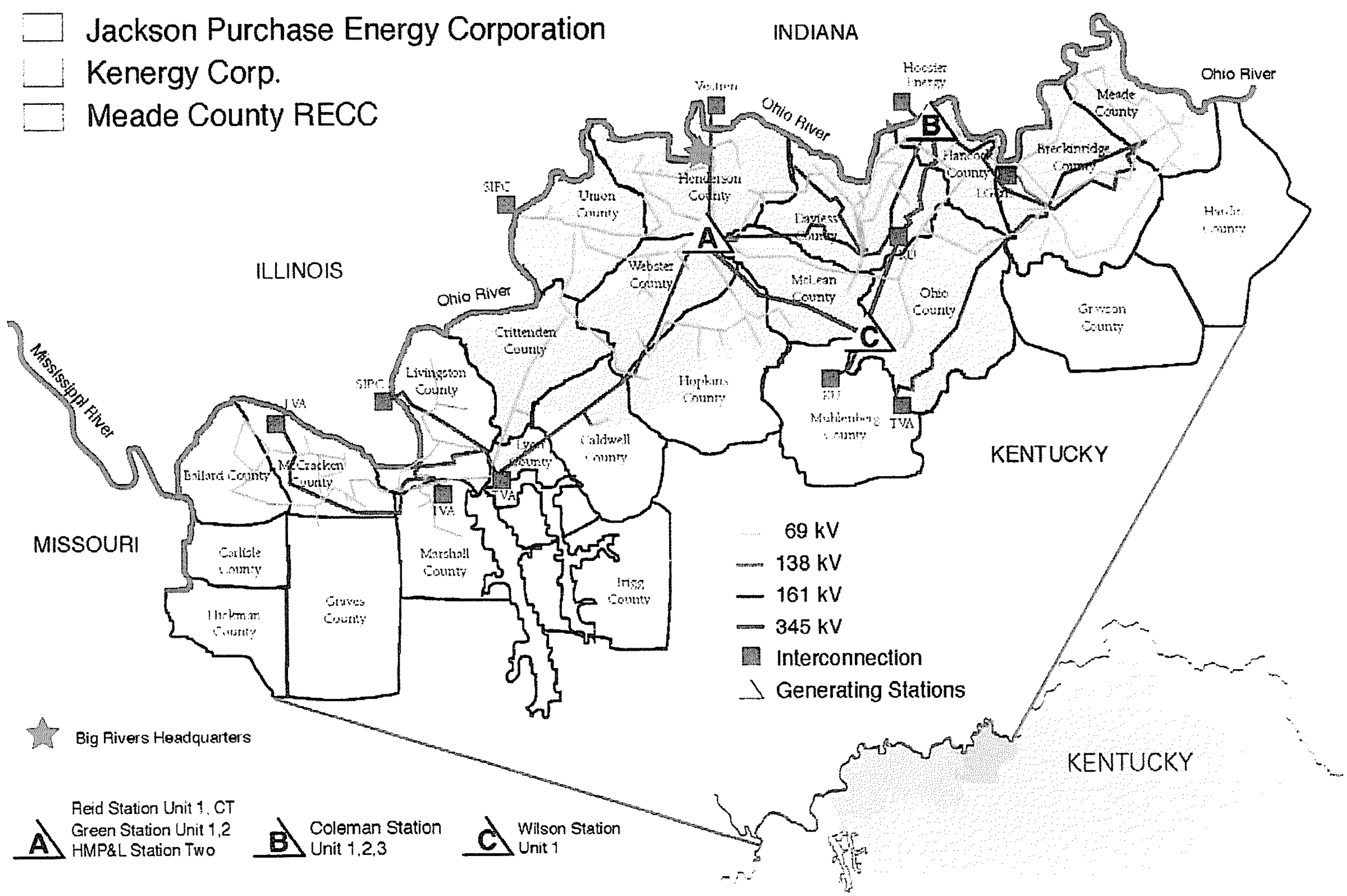
- Big Rivers Electric Corporation ("Big Rivers") was formed in 1961 and is based in Henderson, Kentucky
- Big Rivers supplies wholesale electric generation and transmission service to three electric distribution cooperatives ("Members"):
  - Jackson Purchase Energy Corporation
  - Kenergy Corp. ("Kenergy")
  - Meade County Rural Electric Cooperative Corporation
- Members are local customer-owned cooperatives providing service to approximately 112,500 retail customers on a not-for-profit basis
  - Members serve residential, commercial and industrial customers located in portions of 22 western Kentucky counties
- Big Rivers and its Members are generally regulated by the Kentucky Public Service Commission
- Big Rivers provides capacity and energy to its members through a combination of 5 owned generation stations, one leased generation station and purchased power
  - Net capacity of owned generation – 1,444 MW
  - Net capacity of leased generation – 207 MW
  - Power purchased from SEPA – 178 MW
  - 1,266 miles of transmission lines and 22 substations
  - Midwest ISO membership implementation – Dec. 2010

Key 2010 Statistics

Energy Sales - 11,969 GWh	
Operating Revenues - $527mm	
Total Assets - $1,472mm	
Non-Smelter Member Rate (Excl. MRSM Credit)	$44.26/MWh
Non-Smelter Member Rate Stability Mechanism	($ 7.91/MWh)
Non-Smelter Member Wholesale Rate	$36.35/MWh

Big Rivers

Big Rivers Members' Service Territory

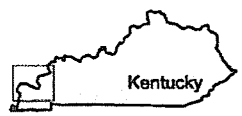


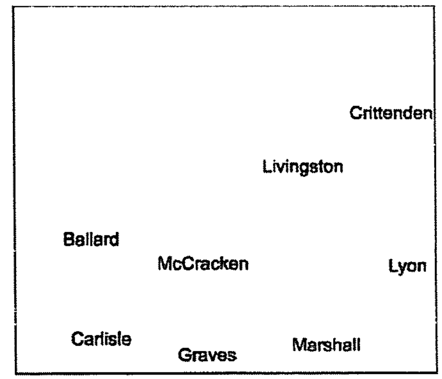
Big Rivers

Overview of Jackson Purchase Energy Corporation

Overview Service Territory

- Established in 1937
- Serves approximately 29,000 accounts in portions of 6 counties in Western Kentucky
- Managed by 8 member/consumer elected board serving four-year staggered terms
- Primarily residential & small commercial customer mix
- Most recent residential retail rate increase: July 2008, 9.5%





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$46.5	$41.9	$42.4
Operating Expenses	36.1	34.4	35.4
Net Operating Income[1]	10.4	7.5	7.0
Cash Flow			
Debt Service	4.9	4.9	4.6
Debt Service Coverage Ratio	2.32 x	1.62 x	1.56 x
TIER	2.51 x	1.26 x	1.34 x
Balance Sheet			
Net Utility Plant	$91.5	$87.3	$82.0
Equities/Capitalization	43.6%	39.8%	42.9%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation, Taxes & Interest*

Customer Profile

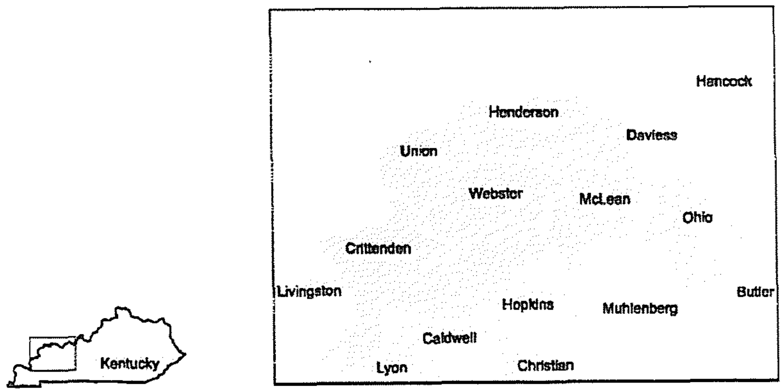
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	441,649	26,053	31,240
Irrigation	356	9	22
Comm. and Ind. (>1,000 kW)	192,112	3,080	11,577
Comm. and Ind. (>1,000 kW)	48,727	7	2,478
Public Lighting	637	3	83
Total	**683,481**	**29,152**	**45,400**

Big Rivers

Overview of Kenergy Corp.

Overview Service Territory

- Established in July 1999 through the consolidation of:
  - Henderson Union Electric Coop. (established 1936), and
  - Green River Electric Corporation (established 1937)
- Serves approximately 55,000 customers in 14 western Kentucky counties along more than 7,000 miles of line
  - Fourth largest electric cooperative in Kentucky in terms of number of customers served
- Managed by 11 member customer-elected board
- Most recent residential retail rate increase: Feb. 2009, 4.0%
- Responsible for supplying Hawesville and Sebree smelters



Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$401.0	$349.8	$359.5
Operating Expenses	381.3	332.9	345.3
Net Operating Income[1]	19.7	16.9	14.2
Cash Flow			
Debt Service	11.6	11.1	11.0
Debt Service Coverage Ratio	1.79 x	1.58 x	1.36 x
TIER	1.95 x	1.48 x	1.13 x
Balance Sheet			
Net Utility Plant	$179.2	$177.5	$174.5
Equities/Capitalization	33.2%	30.3%	29.9%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation. Taxes & Interest*

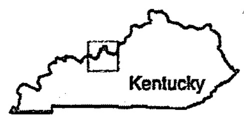
Customer Profile

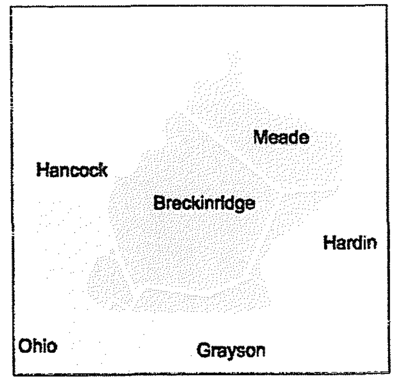
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	812,957	45,201	57,147
Comm. and Ind. (<1,000 kW)	330,907	9,680	22,304
Comm. and Ind. (>1,000 kW)	8,172,897	34	319,742
Public Lighting	1,737	76	280
Total	**9,318,498**	**54,991**	**399,473**

Overview of Meade County Rural Electric Cooperative

Overview Service Territory

- Established in 1937
- Serves approximately 28,000 customers in portions of 6 Kentucky counties along approximately 2,900 miles of line
- Managed by 7 member customer-elected board
- Primarily residential customer mix
- Most recent residential retail rate increase: Feb. 2011, 3.3%





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$34.6	$31.1	$32.1
Operating Expenses	27.5	24.7	24.8
Net Operating Income[1]	7.1	6.4	7.3
Cash Flow			
Debt Service	4.9	4.8	4.6
Debt Service Coverage Ratio	1.55 x	1.37 x	1.64 x
TIER	2.05 x	1.57 x	2.03 x
Balance Sheet			
Net Utility Plant	$69.9	$66.6	$64.3
Equities/Capitalization	33.5%	32.3%	32.6%

Source: RUS Form 7 and Audited Financial Statements
[1]Before Depreciation, Taxes & Interest

Customer Profile

	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	375,089	26,213	26,177
Comm. and Ind. (<1,000 kW)	103,175	2,048	7,397
Public Lighting	1,103	6	74
Total	**479,367**	**28,267**	**33,648**

Big Rivers

Big Rivers' Available Generation Resources

	Fuel Type	Net Capacity (MW)	Commercial Operation
Owned Generation			
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal / Gas	65	1966
Combustion Turbine	Oil / Gas	65	1979
D.B. Wilson Unit 1	Coal	417	1986
Owned Subtotal		1,444	
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
City's Current Capacity Allocation[1]		(105)	
Leased Subtotal		207	
Total Owned / Leased Generation		1,651	
Purchased Power			
Member's SEPA Allocation	Hydro	178	
Total Capacity		1,829	

[1] *Big Rivers operates Station Two, which is owned by the City of Henderson, and is entitled to all capacity and energy not taken by the City under the terms of a power purchase agreement.*

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Residential Electricity in the Nation

Average Residential Rate – Kentucky April 2011[1]

Kentucky Utility	Cents / kWh
East Kentucky Power Cooperative	10.54
AEP Kentucky Power	9.43
Louisville Gas and Electric Company	8.61
Duke Energy Kentucky	8.29
Kentucky Utilities Company	8.08

Proposed Big Rivers Residential Rate (including credits)	8.13
Proposed Big Rivers Residential Rate (excluding credits)	8.81

Average Residential Rate – National January 2011[2]

National Region	Cents / kWh
Pacific Noncontiguous	23.78
New England	16.09
Middle Atlantic	15.06
Pacific Contiguous	12.16
East North Central	10.63
South Atlantic	10.55
West South Central	9.81
Mountain	9.63
East South Central	9.57
West North Central	8.83
Kentucky	8.65
United States Total	**10.99**

[1] *Source: Kentucky Public Service Commission Orders and Filings*
[2] *Source: Energy Information Administration Table 5.6.A*

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Commercial and Industrial Electricity in the Nation

Average Commercial & Industrial Rate – National 2010

National Region	Cents / kWh
Pacific Noncontiguous	19.0
New England	13.9
Middle Atlantic	10.6
Pacific Contiguous	8.9
East North Central	7.7
South Atlantic	7.6
West South Central	7.4
Meade County	**7.2**
East South Central	7.1
Mountain	6.8
West North Central	6.1
Kentucky	**6.0**
Jackson Purchase	**5.8**
Kenergy – excluding Smelters	**4.4**
Kenergy – Smelters	**4.4**

Source: RUS Form 7 and Energy Information Administration

III. Overview of the Smelters

Big Rivers

Overview of Smelters

- Sebree, Kentucky Smelter (Alcan Primary Products Corporation)
  - Alcan is owned by Rio Tinto, an international mining group, and is Rio Tinto's only U.S. aluminum smelter
  - Commenced operation in 1973
  - Produces 186,000 metric tons of primary aluminum annually from its 3 potlines
  - 600 employees
  - Base contract demand: 368 MW and Projected annual energy consumption: 3.1 TWh
  - Recently announced $37mm bake furnace project
- Hawesville, Kentucky Smelter (Century Aluminum of Kentucky General Partnership)
  - Century is a public company and through its various subsidiaries owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia and Iceland
  - Commenced operation in 1970
  - Produces 244,000 metric tons of primary aluminum annually from its 5 potlines
  - 775 employees
  - Base contract demand: 482 MW and Projected annual energy consumption: 4.2 TWh
  - Fifth potline was energized in March and full utilization is projected in May

Big Rivers

Long-Term Smelter Contracts

- Big Rivers and Kenergy (the Member serving the Smelters) entered into the Smelter Wholesale Power Contracts in which Big Rivers supplies energy to Kenergy for resale to the Smelters through the end of 2023 on a take-or-pay basis, subject to a one-year termination notice from the Smelter(s)
- The two aluminum smelters, owned by Alcan and Century, have a base demand of 850 MW and typically use 98% of the energy
- Energy made available to the Smelters will consist of three types:
  - ***Base Monthly Energy:*** 368 MW hourly for Alcan and 482 MW hourly for Century
  - ***Supplemental Energy:*** 10 MW hourly of interruptible energy to each Smelter
  - ***Back-up Energy:*** Imbalance energy for Kenergy made available to the Smelters
- Charges to the Smelters will also include the following adjustments:
  - Base Rate always 25 cents per MWh over Large Industrial
  - Fuel Adjustment Clause ("FAC") – Adjusts monthly for incremental changes in fuel costs
  - Environmental Surcharge ("ES") – Adjusts monthly for incremental changes in non-fuel variable production expenses (emission allowances, reagents and waste disposal)
  - Purchased Power Adjustment ("PPA") – Adjusts monthly for incremental changes in purchased power costs (non-FAC PPA regulatory account for non-smelter members)
  - TIER Adjustment (described on following page)
  - Surcharges – Mitigate impact of FAC and ES on Non-Smelter Members

Big Rivers

Smelter Agreements TIER Support Calculation

($ in millions)

- 20XX Rebate
  - TIER before adjustment (line 4) exceeds 1.24
  - $18.8mm is available for Rebate, split ratably between Non-Smelter Members and Smelters
  - Maximum TIER Adjustment available is $1.95/MWh
- 2013 TIER Adjustment
  - TIER before adjustment (line 4) is below 1.24
  - $20.36mm is contributed by Smelters via TIER Adjustment or $2.79/MWh
  - Maximum TIER Adjustment available is $2.95/MWh

Sample Rebate and TIER Adjustment Calculation

		20XX	2013
1	**Before Rebate / TIER Adjustment**		
2	Net Margin + Interest Charges	$79.9	$45.7
3	Interest Charges	$49.3	$53.3
4	Contract TIER	1.62x	0.86x
5	**Rebate**		
6	Members	(6.2)	–
7	Smelters	(12.6)	–
8	Total	(18.8)	–
9	**TIER Adjustment**		
10	Smelters	–	$20.4
11	Total	–	$20.4
12	**After Rebate / TIER Adjustment**		
13	Net Margin + Interest Charges	$61.1	$66.1
14	Interest Charges	$49.3	$53.3
15	Contract TIER	1.24x	1.24x

Big Rivers

Smelter Rates ($/MWh) and Bandwidth

IV. Financial Projections

Big Rivers

Selected Financial Projection Assumptions

- December 31, 2010 Audited Financial Statements
- Reduction of RUS New Note and Ongoing Financing:
  - Borrow $112mm (April 2010 Forecast $60mm) to refinance $60mm of RUS Series A Note and meet other cash requirements in 2012 (assumed at 8.3%)
  - Borrow $270mm (April 2010 Forecast $200mm) to refinance $200mm of RUS Series A Note and meet other cash requirements in 2016 (assumed at 8.3%)
  - Tax-exempt PCBs $83.3mm; refinanced June 2010 at 6% for 20 years
  - Assumes 6% interest on a refinancing of $58.8 tax-exempt PCBs in 2013
- Production and Variable Cost Inputs:
  - Production and variable cost inputs primarily driven by a Production Cost Model prepared by ACES Power Marketing:
    - energy sales revenues
    - costs of variable energy costs production and purchase
  - Offsystem sales comprise 11.9% of total load at an average price of $44.37/MWh for 2011 through 2014
  - Net generation capacity factors average 82.1%; heat rates are projected by Big Rivers at approximately 10,989 btu/ kWh on average
- Fixed Operating Cost Assumptions:
  - Fixed O&M cost inputs have been developed by Big Rivers and encompass production, transmission and administrative & general ("A&G") costs
- Depreciation and Amortization:
  - Proposed average book depreciation rates amortize gross assets over a period in excess of 48 years (down from 53 years), based on a recent depreciation study.
- Capital Expenditures:
  - Annual average of $58.7mm - $48.3mm for production, $7.3mm for transmission and $3.1mm for A&G for 2011 through 2014

Big Rivers

Rate Case

- On March 1, 2011, Big Rivers filed an application for a general rate adjustment with the Kentucky Public Service Commission ("KPSC")
  - Case number 2011-00036
- Procedural schedule established with discovery to be completed and rebuttal testimony filed by July 7, 2011
- Public hearing expected in July
- KPSC Order expected in August
- New Rates effective September 1
  - If the KPSC does not issue an order by this time or if an intervener requests an appeal, the new rates can be implemented subject to refund

Big Rivers

Statement of Operations

($ in millions)

Statement of Operations	2010 Actual	2010 Forecast[1]	Variance
Electric Energy Revenues	$514.5	$522.8	($8.3)
Other Operating Revenue and Revenue	12.8	7.5	5.3
Total Operating Revenues	$527.3	$530.3	($3.0)
Operating Expense – Excluding Fuel	$187.2	$199.2	$12.0
Operating Expense - Fuel	207.7	196.3	(11.4)
Maintenance Expense	46.9	45.4	(1.5)
Depreciation and Amortization	34.2	34.8	0.6
Interest Expense	46.4	47.5	1.1
Other - Net	(2.1)	0.0	2.1
Total Expenses	$520.3	$523.2	$2.9
Net Margins	$7.0	$7.1	($0.1)

[1] *April 2010 Presentation*

Big Rivers

Balance Sheet Pro-Forma

($ in millions)

Balance Sheet	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual			Projected												
Assets																
Net Utility Plant	$913	$1,078	$1,092	$1,104	$1,126	$1,140	$1,149	$1,141	$1,132	$1,126	$1,119	$1,117	$1,112	$1,107	$1,102	$1,098
Cash & Investments	39	60	45	41	42	44	46	53	72	60	47	38	36	46	46	48
Transition Reserve	0	35	35	0	0	0	0	0	0	0	0	0	0	0	0	0
Economic Reserve	0	148	121	98	72	44	15	0	0	0	0	0	0	0	0	0
Rural Economic Reserve	0	61	62	63	64	65	66	57	32	7	0	0	0	0	0	0
Receivables, Inventories & Other	122	123	117	135	147	152	157	158	170	173	176	180	185	188	193	204
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,406	$1,366	$1,342	$1,335	$1,333	$1,341	$1,341	$1,350
Equities & Liabilities																
Equities	($155)	$379	$387	$393	$400	$415	$422	$437	$444	$454	$465	$477	$483	$498	$514	$527
Debt	987	849	817	798	841	828	815	801	848	821	792	762	731	743	736	729
Deferred Revenue – Economic Reserves	0	206	181	161	136	109	81	57	32	7	0	0	0	0	0	0
Payables & Other	242	71	87	89	74	93	115	114	82	84	85	96	119	100	91	94
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,405	$1,366	$1,342	$1,335	$1,333	$1,346	$1,341	$1,350
Equities / Total Capitalization	(19%)	31%	32%	33%	32%	33%	34%	35%	34%	36%	37%	38%	40%	40%	41%	42%
Equities / Total Capitalization (April 2010 Forecast)			31%	32%	32%	33%	34%	35%	37%	38%	40%	41%	43%	44%	46%	47%

Note: Reflects simultaneous RUS Series A Note refinancings (borrowing and paydown) in 2012 and 2016.

Contract and Conventional TIER

($ in millions)

	Actual			Forecasted												
Contract TIER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins			$7.0													
Interest Expense			47.1	47.4	48.7	53.3	53.1	52.2	65.1	60.5	58.9	57.2	55.4	54.5	55.2	54.3
Adjustment per Smelter Agreement			(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Numerator for Contract TIER			$53.8													
Denominator- Interest Expense			$47.1	$47.4	$48.7	$53.3	$53.1	$52.2	$65.1	$60.5	$58.9	$57.2	$55.4	$54.5	$55.2	$54.3
Contract TIER			1.14x	—	—											
Contract TIER (April 2010 Forecast)			1.14x	1.09x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.22x	1.24x	1.24x	1.20x

Conventional TIER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins	$27.8	$531.3	$7.0													
Interest Expense	75.2	60.1	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Numerator for Conventional TIER	$103.0	$591.4	$54.1													
Denominator for Contract TIER	$75.2	$60.0	$47.1	$45.9	$46.6	$51.2	$51.0	$50.2	$63.1	$58.4	$56.8	$55.1	$53.3	$52.4	$53.2	$52.3
Conventional TIER	1.37x	9.85x	1.15x													
Conventional TIER (April 2010 Forecast)			1.15x	1.10x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.22x	1.25x	1.25x	1.21x

Big Rivers

Debt Service Coverage

($ in millions)

	Actual			Projected												
Debt Service Coverage	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins	27.8	531.3	$7.0													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Depreciation & Amortization	32.7	34.3	36.2	40.1	45.6	46.8	48.1	49.0	49.9	50.9	51.9	53.0	54.1	55.1	56.3	57.4
Numerator for DSCR	135.7	625.6	90.3													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Principal Due for Long-Term Debt	40.8	196.7	14.1	7.3	(35.9)	20.5	21.7	23.0	(38.1)	36.7	38.9	41.2	43.0	0.0	20.0	20.0
Denominator for DSCR	116.0	256.7	61.2													
Debt Service Coverage Ratio	1.17	2.44	1.47	1.73	9.31	1.57	1.46	1.55	4.84	1.25	1.25	1.24	1.18	2.34	1.70	1.70
Cash DSCR (April 2010 Forecast)			1.53	1.63	3.25	1.69	1.71	1.71	1.41	1.56	1.56	1.56	1.53	1.81	1.98	2.02

[1] *Scheduled Principal shown net of RUS New Note refinancings in 2012 and 2016.*

Big Rivers

Cash and Liquidity

Days Cash on Hand ($mm)	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Average Cash Balance	$93.9	$84.6	$87.6	$60.8	$41.6[1]	$42.9	$45.3	$49.8	$62.7[1]	$66.4	$53.6	$42.3	$37.2	$41.2	$46.1	$47.4
RUS Series A Note Prepaid Status	0.0	0.0	23.9	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	0.0	0.0	0.0
Lines of Credit	15.0	100.0	90.0	86.0	100.0	83.0	63.0	63.0	100.0	100.0	100.0	89.0	69.0	89.0	100.0	100.0
Total	$108.9	$184.6	$201.5	$181.8	$176.6	$160.9	$143.3	$147.8	$197.7	$201.4	$188.6	$166.3	$141.2	$130.2	$146.1	$147.4
Operating Expense	$216.8	$325.7	$467.5	$490.5	$543.7	$569.8	$602.3	$605.0	$641.7	$653.5	$667.2	$688.1	$706.7	$716.0	$734.7	$752.8
Days Liquidity, including Lines of Credit	183	207	157	135	119	103	87	90	113	113	103	88	73	66	73	72
Days Liquidity, excluding Lines of Credit	158	95	87	71	52	50	49	51	56	57	48	41	37	21	23	23
Days Liquidity, including Lines of Credit (April 2010 Forecast)			143	121	111	111	108	114	107	103	102	98	93	93	96	101
Days Liquidity, excluding Lines of Credit (April 2010 Forecast)			67	49	43	43	43	49	45	43	43	40	36	36	41	46

[1] Cash Balance shown net of New RUS Note refinancings in 2012 and 2016.

Big Rivers

Projected Non-Smelter Member Rates
($ /MWh)

	Actual			Projected												
Rate Derivation[1] ($ /MWh)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Smelter Members																
Base Rate	$34.57	$35.68	$35.33													
Amortize Regulatory Account	0.00	0.00	0.00	(0.36)	(1.31)	(1.43)	(0.88)	(0.31)	(0.28)	(0.53)	(0.67)	(0.53)	(0.35)	(0.35)	(0.36)	(0.38)
FAC	0.00	4.45	9.98	10.45	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	0.00	1.05	2.25	3.10	3.48	3.69	3.88	4.13	4.23	4.32	4.49	4.70	4.88	5.14	5.26	5.47
Surcredit	0.00	(1.53)	(3.30)	(3.44)	(4.05)	(4.01)	(3.97)	(3.91)	(3.86)	(4.91)	(5.19)	(5.12)	(5.05)	(4.97)	(4.90)	(4.82)
Rate Stabilization (Economic Reserve)																
Economic Reserve	0.00	(3.97)	(7.91)	(7.09)	(8.02)	(8.50)	(8.54)	(4.21)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rural Economic Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(3.15)	(7.17)	(7.09)	(2.08)	0.00	0.00	0.00	0.00	0.00
Blended Rate	$34.57	$35.68	$36.35													
Blended Rate (April 2010 Forecast)			$36.01	$38.02	$42.97	$43.94	$43.96	$43.84	$48.75	$48.57	$51.02	$56.20	$56.80	$60.01	$60.52	$61.15

[1] *Reflects accrual basis (vs. cash basis).*

Big Rivers

Projected Smelter Rates

Rate Derivation ($/MWh)[1] Smelters	Actual 2009	Actual 2010	Projected 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Large Industrial Rate @ 98%[2]	$30.18	$29.07													
Additional Smelter Charge	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Base Rate	30.43	29.32													
TIER Adjustment	1.95	1.95	1.95	2.95	2.79	2.95	1.79	3.55	3.55	4.15	4.15	4.15	2.93	4.14	4.75
Non-FAC PPA	(0.56)	(1.18)	(1.10)	(0.47)	(0.58)	(0.58)	(0.56)	(0.56)	(0.56)	(0.38)	(0.49)	(0.42)	(0.31)	(0.45)	(0.37)
FAC	10.38	10.13	10.46	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	2.45	2.26	3.09	3.48	3.69	3.88	4.14	4.24	4.32	4.50	4.71	4.88	5.14	5.25	5.47
Surcharges	1.57	1.57	1.57	1.87	1.87	1.87	1.87	1.87	2.42	2.60	2.60	2.59	2.60	2.60	2.60
Rebate (accrued)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effective Rate	$46.22	$44.05													
Effective Rate (April 2010 Forecast)		$43.25	$44.61	$49.90	$51.08	$51.92	$53.06	$55.42	$57.98	$59.36	$59.63	$60.66	$61.76	$63.24	$64.47

[1] Reflects accrual basis (vs. cash basis).

[2] Actual may differ from Large Industrial Rate @ 98% load factor if metered energy is lower/higher than contract Base Fixed Energy.

Appendix A: Additional Information

Big Rivers' Coal-Fired Power Plants System Performance

- Eight of the nine coal generating units are equipped with Flue Gas Desulphurization systems (FGDs) to control SO2 emissions
- Wilson 1, HMP&L 1 and HMP&L 2 are equipped with Selective Catalytic Reduction systems (SCRs) to control NOx emissions
- System performance is actively benchmarked against the industry utilizing GKS Navigant services. In the most recent benchmarking survey (2007 to 2010 Q3), Big Rivers displayed the following results when comparing O&M costs including fuel.
  - System capacity weighted O&M cost including fuel was - $5/MW less than the median cost ($31.61/MW vs. $36.63/MW).
  - Eight generating units operated below median cost with three of those generating units operating in the best quartile.

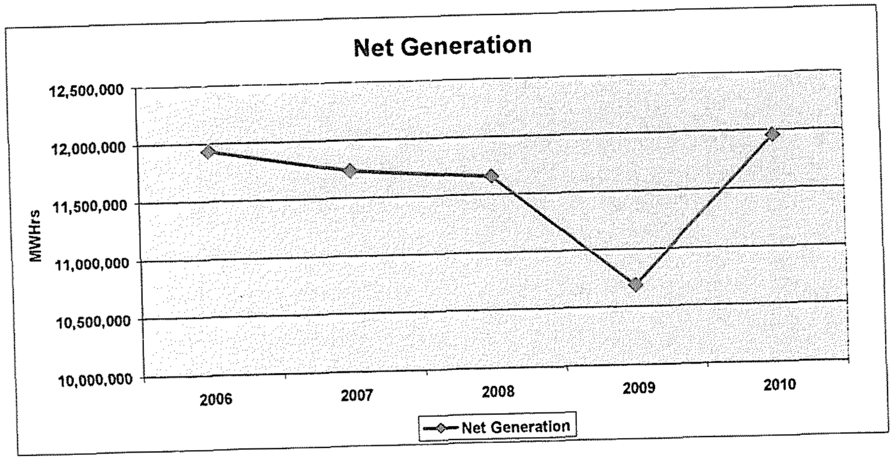
Key Performance Indicators per IEEE Standards (6 Year Averages 2005 thru 2010)

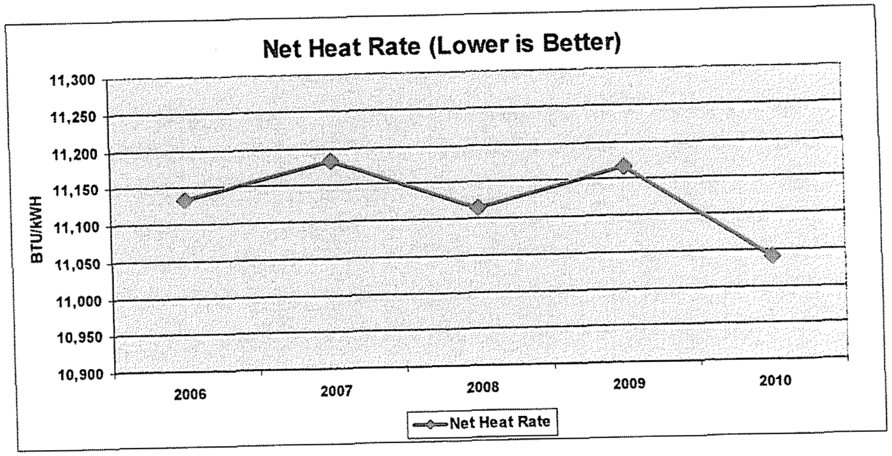
Unit	Net Generation (MWHrs)	Net Heat Rate (BTU/kWH)	Gross Capacity Factor (%)	Equivalent Availability Factor (%)	Equivalent Forced Outage Rate (%)
Coleman 1	944,941	10,702	72.5	87.8	5.2
Coleman 2	887,010	11,577	72.5	90.1	2.9
Coleman 3	983,149	10,600	73.4	88.2	6.1
Green 1	1,800,783	11,118	90.2	93.1	2.2
Green 2	1,708,046	11,278	88.6	92.7	1.6
Henderson 1	1,074,239	10,877	81.3	86.1	7.9
Henderson 2	1,107,773	11,147	80.3	88.5	3.9
Wilson 1	3,143,237	11,262	86.5	87.9	5.2
SYSTEM	**11,649,175**	**11,108**	**82.4**	**89.4**	**4.3**

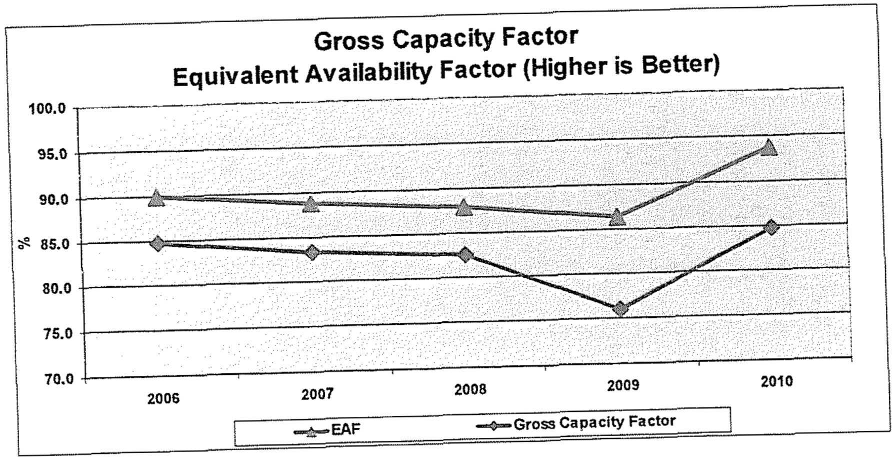
Big Rivers ELECTRIC CORPORATION

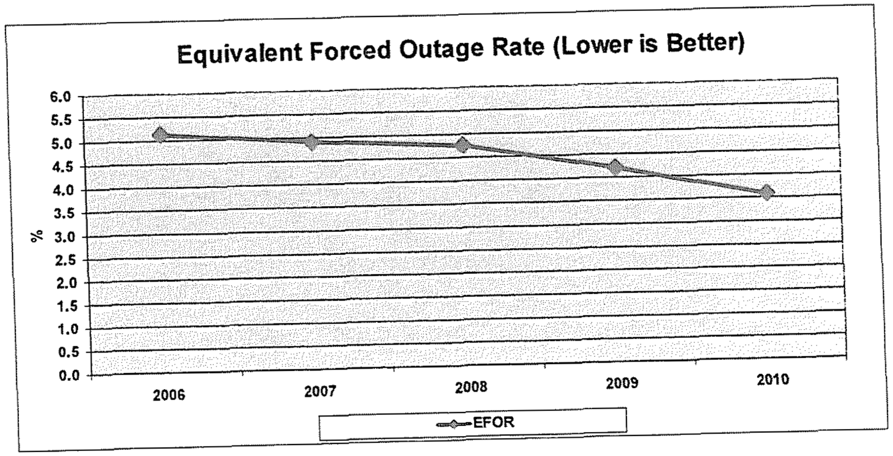
Your Touchstone Energy Cooperative

BREC System Performance 2006 - 2010









May 2011 Rating Agency Presentation – Standard and Poor's

Presentation to Standard and Poor's
Big Rivers Electric Corporation

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

May-2011

Big Rivers

Participants

Big Rivers Electric Corporation

Mark A. Bailey *President & CEO*

C. William Blackburn *Sr. Vice-President Financial & Energy Services & CFO*

Robert W. Berry *Vice-President Production*

Big Rivers

Meeting Objectives

- Update on Status of Big Rivers Electric Corporation

Big Rivers

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I. Overview of Big Rivers Electric Corporation

II. Review of Unwind Transaction

III. Overview of the Smelters

IV. Financial Projections

Appendix A: Additional Information

Big Rivers

I. Overview of Big Rivers Electric Corporation

Big Rivers

Overview of Big Rivers Electric Corporation

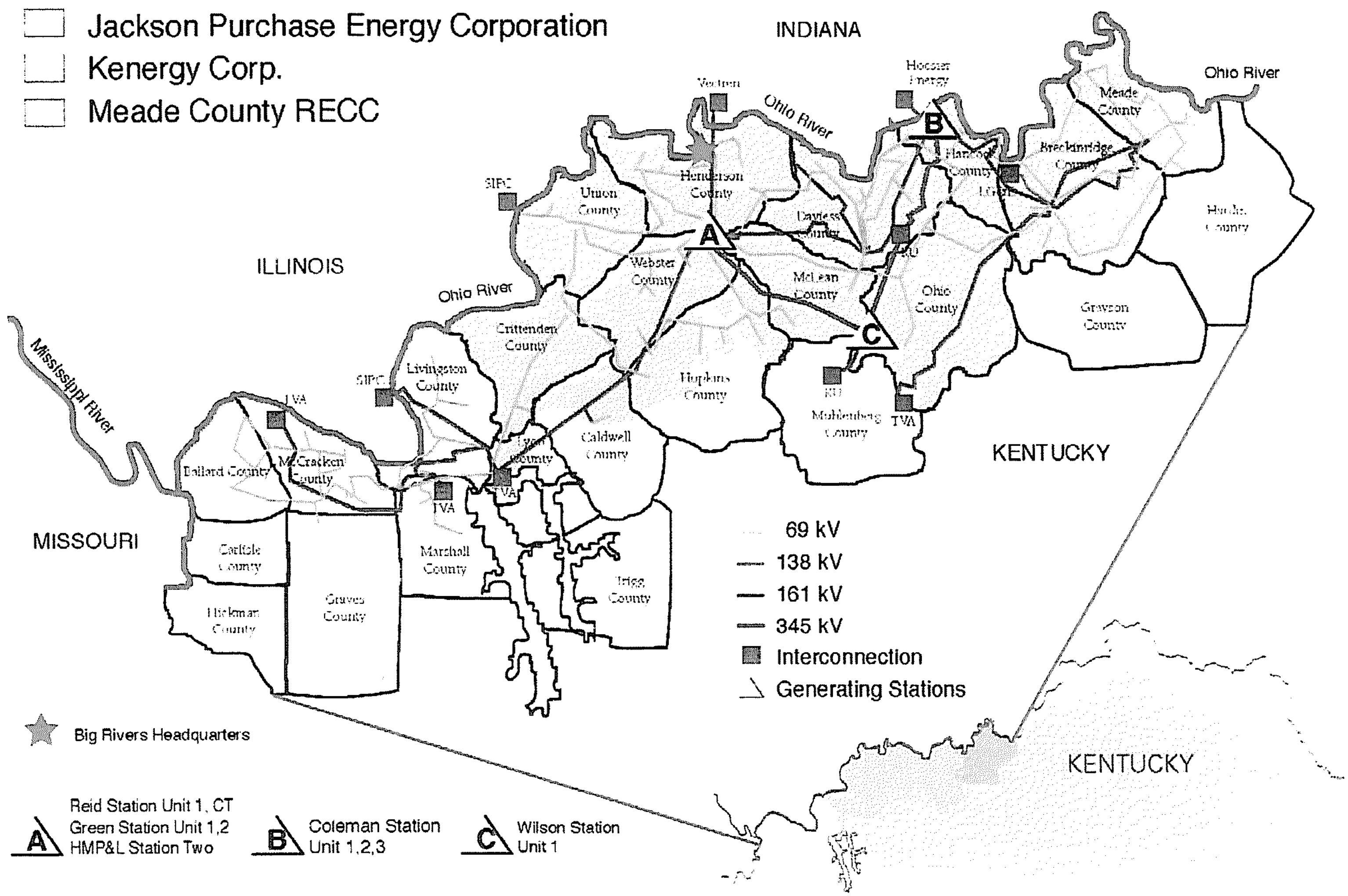
- Big Rivers Electric Corporation ("Big Rivers") was formed in 1961 and is based in Henderson, Kentucky
- Big Rivers supplies wholesale electric generation and transmission service to three electric distribution cooperatives ("Members"):
  - Jackson Purchase Energy Corporation
  - Kenergy Corp. ("Kenergy")
  - Meade County Rural Electric Cooperative Corporation
- Members are local customer-owned cooperatives providing service to approximately 112,500 retail customers on a not-for-profit basis
  - Members serve residential, commercial and industrial customers located in portions of 22 western Kentucky counties
- Big Rivers and its Members are generally regulated by the Kentucky Public Service Commission
- Big Rivers provides capacity and energy to its members through a combination of 5 owned generation stations, one leased generation station and purchased power
  - Net capacity of owned generation – 1,444 MW
  - Net capacity of leased generation – 207 MW
  - Power purchased from SEPA – 178 MW
  - 1,266 miles of transmission lines and 22 substations
  - Midwest ISO membership implementation – Dec. 2010

Key 2010 Statistics

Energy Sales - 11,969 GWh	
Operating Revenues - $527mm	
Total Assets - $1,472mm	
Non-Smelter Member Rate (Excl. MRSM Credit)	$44.26/MWh
Non-Smelter Member Rate Stability Mechanism	($ 7.91/MWh)
Non-Smelter Member Wholesale Rate	$36.35/MWh

Big Rivers

Big Rivers Members' Service Territory

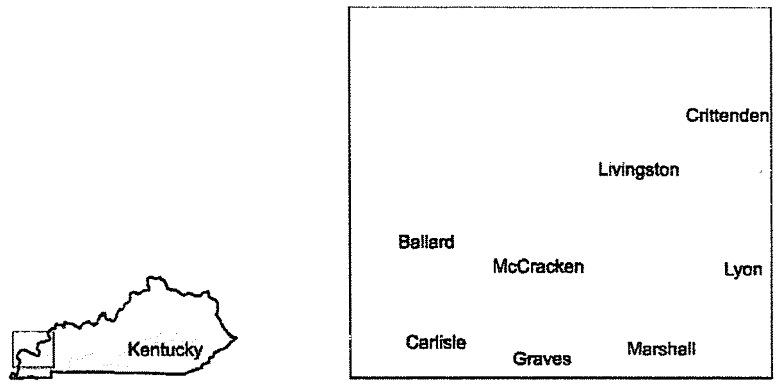


Big Rivers

Overview of Jackson Purchase Energy Corporation

Overview Service Territory

- Established in 1937
- Serves approximately 29,000 accounts in portions of 6 counties in Western Kentucky
- Managed by 8 member/consumer elected board serving four-year staggered terms
- Primarily residential & small commercial customer mix
- Most recent residential retail rate increase: July 2008, 9.5%



Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$46.5	$41.9	$42.4
Operating Expenses	36.1	34.4	35.4
Net Operating Income[1]	10.4	7.5	7.0
Cash Flow			
Debt Service	4.9	4.9	4.6
Debt Service Coverage Ratio	2.32 x	1.62 x	1.56 x
TIER	2.51 x	1.26 x	1.34 x
Balance Sheet			
Net Utility Plant	$91.5	$87.3	$82.0
Equities/Capitalization	43.6%	39.8%	42.9%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation, Taxes & Interest*

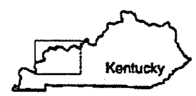
Customer Profile

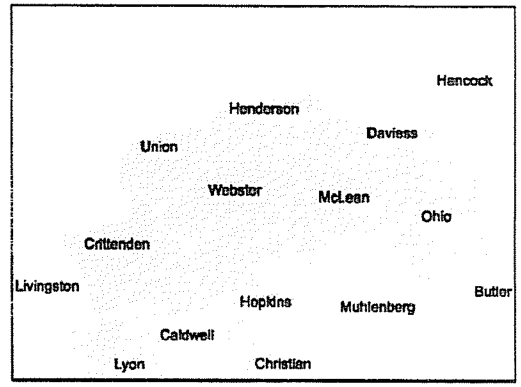
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	441,649	26,053	31,240
Irrigation	356	9	22
Comm. and Ind. (>1,000 kW)	192,112	3,080	11,577
Comm. and Ind. (>1,000 kW)	48,727	7	2,478
Public Lighting	637	3	83
Total	**683,481**	**29,152**	**45,400**

Overview of Kenergy Corp.

Overview Service Territory

- Established in July 1999 through the consolidation of:
  - Henderson Union Electric Coop. (established 1936), and
  - Green River Electric Corporation (established 1937)
- Serves approximately 55,000 customers in 14 western Kentucky counties along more than 7,000 miles of line
  - Fourth largest electric cooperative in Kentucky in terms of number of customers served
- Managed by 11 member customer-elected board
- Most recent residential retail rate increase: Feb. 2009, 4.0%
- Responsible for supplying Hawesville and Sebree smelters





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$401.0	$349.8	$359.5
Operating Expenses	381.3	332.9	345.3
Net Operating Income[1]	19.7	16.9	14.2
Cash Flow			
Debt Service	11.6	11.1	11.0
Debt Service Coverage Ratio	1.79 x	1.58 x	1.36 x
TIER	1.95 x	1.48 x	1.13 x
Balance Sheet			
Net Utility Plant	$179.2	$177.5	$174.5
Equities/Capitalization	33.2%	30.3%	29.9%

Source: RUS Form 7 and Audited Financial Statements
[1]Before Depreciation, Taxes & Interest

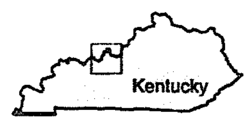
Customer Profile

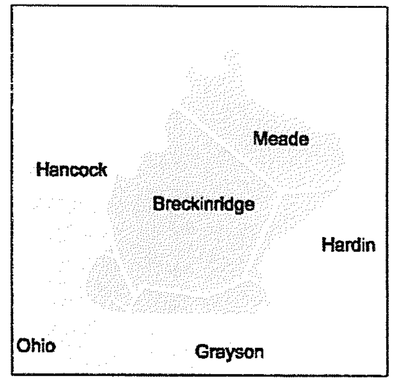
	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	812,957	45,201	57,147
Comm. and Ind. (<1,000 kW)	330,907	9,680	22,304
Comm. and Ind. (>1,000 kW)	8,172,897	34	319,742
Public Lighting	1,737	76	280
Total	**9,318,498**	**54,991**	**399,473**

Overview of Meade County Rural Electric Cooperative

Overview Service Territory

- Established in 1937
- Serves approximately 28,000 customers in portions of 6 Kentucky counties along approximately 2,900 miles of line
- Managed by 7 member customer-elected board
- Primarily residential customer mix
- Most recent residential retail rate increase: Feb. 2011, 3.3%





Summary Financial Information ($M)

	Fiscal Year Ended December 31		
Income Statement	**2010**	**2009**	**2008**
Operating Revenues	$34.6	$31.1	$32.1
Operating Expenses	27.5	24.7	24.8
Net Operating Income[1]	7.1	6.4	7.3
Cash Flow			
Debt Service	4.9	4.8	4.6
Debt Service Coverage Ratio	1.55 x	1.37 x	1.64 x
TIER	2.05 x	1.57 x	2.03 x
Balance Sheet			
Net Utility Plant	$69.9	$66.6	$64.3
Equities/Capitalization	33.5%	32.3%	32.6%

Source: RUS Form 7 and Audited Financial Statements
[1]*Before Depreciation, Taxes & Interest*

Customer Profile

	FY 2010		
Customer Type	**MWh**	**Number of Consumers**	**Revenue ($000)**
Residential	375,089	26,213	26,177
Comm. and Ind. (<1,000 kW)	103,175	2,048	7,397
Public Lighting	1,103	6	74
Total	**479,367**	**28,267**	**33,648**

Big Rivers

Big Rivers' Available Generation Resources

	Fuel Type	Net Capacity (MW)	Commercial Operation
Owned Generation			
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal / Gas	65	1966
Combustion Turbine	Oil / Gas	65	1979
D.B. Wilson Unit 1	Coal	417	1986
Owned Subtotal		1,444	
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
City's Current Capacity Allocation[1]		(105)	
Leased Subtotal		207	
Total Owned / Leased Generation		1,651	
Purchased Power			
Member's SEPA Allocation	Hydro	178	
Total Capacity		1,829	

[1] *Big Rivers operates Station Two, which is owned by the City of Henderson, and is entitled to all capacity and energy not taken by the City under the terms of a power purchase agreement.*

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Residential Electricity in the Nation

Average Residential Rate – Kentucky
April 2011[1]

Kentucky Utility	Cents / kWh
East Kentucky Power Cooperative	10.54
AEP Kentucky Power	9.43
Louisville Gas and Electric Company	8.61
Duke Energy Kentucky	8.29
Kentucky Utilities Company	8.08

Proposed Big Rivers Residential Rate (including credits)	8.13
Proposed Big Rivers Residential Rate (excluding credits)	8.81

Average Residential Rate – National
January 2011[2]

National Region	Cents / kWh
Pacific Noncontiguous	23.78
New England	16.09
Middle Atlantic	15.06
Pacific Contiguous	12.16
East North Central	10.63
South Atlantic	10.55
West South Central	9.81
Mountain	9.63
East South Central	9.57
West North Central	8.83
Kentucky	8.65
United States Total	**10.99**

[1] Source: Kentucky Public Service Commission Orders and Filings
[2] Source: Energy Information Administration Table 5.6.A

Big Rivers

Big Rivers' Members Provide Some of the Lowest Cost Commercial and Industrial Electricity in the Nation

Average Commercial & Industrial Rate – National 2010

National Region	Cents / kWh
Pacific Noncontiguous	19.0
New England	13.9
Middle Atlantic	10.6
Pacific Contiguous	8.9
East North Central	7.7
South Atlantic	7.6
West South Central	7.4
Meade County	**7.2**
East South Central	7.1
Mountain	6.8
West North Central	6.1
Kentucky	**6.0**
Jackson Purchase	**5.8**
Kenergy – excluding Smelters	**4.4**
Kenergy – Smelters	**4.4**

Source: RUS Form 7 and Energy Information Administration

Big Rivers

III. Overview of the Smelters

Big Rivers

Overview of Smelters

- Sebree, Kentucky Smelter (Alcan Primary Products Corporation)
  - Alcan is owned by Rio Tinto, an international mining group, and is Rio Tinto's only U.S. aluminum smelter
  - Commenced operation in 1973
  - Produces 186,000 metric tons of primary aluminum annually from its 3 potlines
  - 600 employees
  - Base contract demand: 368 MW and Projected annual energy consumption: 3.1 TWh
  - Recently announced $37mm bake furnace project
- Hawesville, Kentucky Smelter (Century Aluminum of Kentucky General Partnership)
  - Century is a public company and through its various subsidiaries owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia and Iceland
  - Commenced operation in 1970
  - Produces 244,000 metric tons of primary aluminum annually from its 5 potlines
  - 775 employees
  - Base contract demand: 482 MW and Projected annual energy consumption: 4.2 TWh
  - Fifth potline was energized in March and full utilization is projected in May

Big Rivers

Long-Term Smelter Contracts

- Big Rivers and Kenergy (the Member serving the Smelters) entered into the Smelter Wholesale Power Contracts in which Big Rivers supplies energy to Kenergy for resale to the Smelters through the end of 2023 on a take-or-pay basis, subject to a one-year termination notice from the Smelter(s)
- The two aluminum smelters, owned by Alcan and Century, have a base demand of 850 MW and typically use 98% of the energy
- Energy made available to the Smelters will consist of three types:
  - ***Base Monthly Energy:*** 368 MW hourly for Alcan and 482 MW hourly for Century
  - ***Supplemental Energy:*** 10 MW hourly of interruptible energy to each Smelter
  - ***Back-up Energy:*** Imbalance energy for Kenergy made available to the Smelters
- Charges to the Smelters will also include the following adjustments:
  - Base Rate always 25 cents per MWh over Large Industrial
  - Fuel Adjustment Clause ("FAC") – Adjusts monthly for incremental changes in fuel costs
  - Environmental Surcharge ("ES") – Adjusts monthly for incremental changes in non-fuel variable production expenses (emission allowances, reagents and waste disposal)
  - Purchased Power Adjustment ("PPA") – Adjusts monthly for incremental changes in purchased power costs (non-FAC PPA regulatory account for non-smelter members)
  - TIER Adjustment (described on following page)
  - Surcharges – Mitigate impact of FAC and ES on Non-Smelter Members

Big Rivers

Smelter Agreements TIER Support Calculation

($ in millions)

- 20XX Rebate
  - TIER before adjustment (line 4) exceeds 1.24
  - $18.8mm is available for Rebate, split ratably between Non-Smelter Members and Smelters
  - Maximum TIER Adjustment available is $1.95/MWh
- 2013 TIER Adjustment
  - TIER before adjustment (line 4) is below 1.24
  - $20.36mm is contributed by Smelters via TIER Adjustment or $2.79/MWh
  - Maximum TIER Adjustment available is $2.95/MWh

Sample Rebate and TIER Adjustment Calculation

		20XX	2013
1	**Before Rebate / TIER Adjustment**		
2	Net Margin + Interest Charges	$79.9	$45.7
3	Interest Charges	$49.3	$53.3
4	Contract TIER	1.62x	0.86x
5	**Rebate**		
6	Members	(6.2)	–
7	Smelters	(12.6)	–
8	Total	(18.8)	–
9	**TIER Adjustment**		
10	Smelters	–	$20.4
11	Total	–	$20.4
12	**After Rebate / TIER Adjustment**		
13	Net Margin + Interest Charges	$61.1	$66.1
14	Interest Charges	$49.3	$53.3
15	Contract TIER	1.24x	1.24x

Big Rivers

Smelter Rates ($/MWh) and Bandwidth

IV. Financial Projections

Big Rivers

Selected Financial Projection Assumptions

- December 31, 2010 Audited Financial Statements
- Reduction of RUS New Note and Ongoing Financing:
  - Borrow $112mm (April 2010 Forecast $60mm) to refinance $60mm of RUS Series A Note and meet other cash requirements in 2012 (assumed at 8.3%)
  - Borrow $270mm (April 2010 Forecast $200mm) to refinance $200mm of RUS Series A Note and meet other cash requirements in 2016 (assumed at 8.3%)
  - Tax-exempt PCBs $83.3mm; refinanced June 2010 at 6% for 20 years
  - Assumes 6% interest on a refinancing of $58.8 tax-exempt PCBs in 2013
- Production and Variable Cost Inputs:
  - Production and variable cost inputs primarily driven by a Production Cost Model prepared by ACES Power Marketing:
    - energy sales revenues
    - costs of variable energy costs production and purchase
  - Offsystem sales comprise 11.9% of total load at an average price of $44.37/MWh for 2011 through 2014
  - Net generation capacity factors average 82.1%; heat rates are projected by Big Rivers at approximately 10,989 btu/ kWh on average
- Fixed Operating Cost Assumptions:
  - Fixed O&M cost inputs have been developed by Big Rivers and encompass production, transmission and administrative & general ("A&G") costs
- Depreciation and Amortization:
  - Proposed average book depreciation rates amortize gross assets over a period in excess of 48 years (down from 53 years), based on a recent depreciation study.
- Capital Expenditures:
  - Annual average of $58.7mm - $48.3mm for production, $7.3mm for transmission and $3.1mm for A&G for 2011 through 2014

Big Rivers

Rate Case

- On March 1, 2011, Big Rivers filed an application for a general rate adjustment with the Kentucky Public Service Commission ("KPSC")
  - Case number 2011-00036
- Procedural schedule established with discovery to be completed and rebuttal testimony filed by July 7, 2011
- Public hearing expected in July
- KPSC Order expected in August
- New Rates effective September 1
  - If the KPSC does not issue an order by this time or if an intervener requests an appeal, the new rates can be implemented subject to refund

Big Rivers

Statement of Operations

($ in millions)

Statement of Operations	2010 Actual	2010 Forecast[1]	Variance
Electric Energy Revenues	$514.5	$522.8	($8.3)
Other Operating Revenue and Revenue	12.8	7.5	5.3
Total Operating Revenues	$527.3	$530.3	($3.0)
Operating Expense – Excluding Fuel	$187.2	$199.2	$12.0
Operating Expense - Fuel	207.7	196.3	(11.4)
Maintenance Expense	46.9	45.4	(1.5)
Depreciation and Amortization	34.2	34.8	0.6
Interest Expense	46.4	47.5	1.1
Other - Net	(2.1)	0.0	2.1
Total Expenses	$520.3	$523.2	$2.9
Net Margins	$7.0	$7.1	($0.1)

[1] *April 2010 Presentation*

Big Rivers

Balance Sheet Pro-Forma

($ in millions)

Balance Sheet	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assets																
Net Utility Plant	$913	$1,078	$1,092	$1,104	$1,126	$1,140	$1,149	$1,141	$1,132	$1,126	$1,119	$1,117	$1,112	$1,107	$1,102	$1,098
Cash & Investments	39	60	45	41	42	44	46	53	72	60	47	38	36	46	46	48
Transition Reserve	0	35	35	0	0	0	0	0	0	0	0	0	0	0	0	0
Economic Reserve	0	148	121	98	72	44	15	0	0	0	0	0	0	0	0	0
Rural Economic Reserve	0	61	62	63	64	65	66	57	32	7	0	0	0	0	0	0
Receivables, Inventories & Other	122	123	117	135	147	152	157	158	170	173	176	180	185	188	193	204
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,406	$1,366	$1,342	$1,335	$1,333	$1,341	$1,341	$1,350
Equities & Liabilities																
Equities	($155)	$379	$387	$393	$400	$415	$422	$437	$444	$454	$465	$477	$483	$498	$514	$527
Debt	987	849	817	798	841	828	815	801	848	821	792	762	731	743	736	729
Deferred Revenue – Economic Reserves	0	206	181	161	136	109	81	57	32	7	0	0	0	0	0	0
Payables & Other	242	71	87	89	74	93	115	114	82	84	85	96	119	100	91	94
Total	$1,074	$1,505	$1,472	$1,441	$1,451	$1,445	$1,433	$1,409	$1,405	$1,366	$1,342	$1,335	$1,333	$1,346	$1,341	$1,350
Equities / Total Capitalization	(19%)	31%	32%	33%	32%	33%	34%	35%	34%	36%	37%	38%	40%	40%	41%	42%
Equities / Total Capitalization (April 2010 Forecast)			31%	32%	32%	33%	34%	35%	37%	38%	40%	41%	43%	44%	46%	47%

Note: Reflects simultaneous RUS Series A Note refinancings (borrowing and paydown) in 2012 and 2016.

Big Rivers

Contract and Conventional TIER

($ in millions)

	Actual			Forecasted												
Contract TIER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins			$7.0													
Interest Expense			47.1	47.4	48.7	53.3	53.1	52.2	65.1	60.5	58.9	57.2	55.4	54.5	55.2	54.3
Adjustment per Smelter Agreement			(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Numerator for Contract TIER			$53.8													
Denominator- Interest Expense			$47.1	$47.4	$48.7	$53.3	$53.1	$52.2	$65.1	$60.5	$58.9	$57.2	$55.4	$54.5	$55.2	$54.3
Contract TIER			1.14x													
Contract TIER (April 2010 Forecast)			1.14x	1.09x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.24x	1.22x	1.24x	1.24x	1.20x
Conventional TIER																
Margins	$27.8	$531.3	$7.0													
Interest Expense	75.2	60.1	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Numerator for Conventional TIER	$103.0	$591.4	$54.1													
Denominator for Contract TIER	$75.2	$60.0	$47.1	$45.9	$46.6	$51.2	$51.0	$50.2	$63.1	$58.4	$56.8	$55.1	$53.3	$52.4	$53.2	$52.3
Conventional TIER	1.37x	9.85x	1.15x													
Conventional TIER (April 2010 Forecast)			1.15x	1.10x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.22x	1.25x	1.25x	1.21x

Big Rivers

Debt Service Coverage

($ in millions)

Debt Service Coverage	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins	27.8	531.3	$7.0													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Depreciation & Amortization	32.7	34.3	36.2	40.1	45.6	46.8	48.1	49.0	49.9	50.9	51.9	53.0	54.1	55.1	56.3	57.4
Numerator for DSCR	135.7	625.6	90.3													
Interest Expense	75.2	60.0	47.1	45.9	46.6	51.2	51.0	50.2	63.1	58.4	56.8	55.1	53.3	52.4	53.2	52.3
Principal Due for Long-Term Debt	40.8	196.7	14.1	7.3	(35.9)	20.5	21.7	23.0	(38.1)	36.7	38.9	41.2	43.0	0.0	20.0	20.0
Denominator for DSCR	116.0	256.7	61.2													
Debt Service Coverage Ratio	1.17	2.44	1.47	1.73	9.31	1.57	1.46	1.55	4.84	1.25	1.25	1.24	1.18	2.34	1.70	1.70
Cash DSCR (April 2010 Forecast)			1.53	1.63	3.25	1.69	1.71	1.71	1.41	1.56	1.56	1.56	1.53	1.81	1.98	2.02

[1] *Scheduled Principal shown net of RUS New Note refinancings in 2012 and 2016.*

Big Rivers

Cash and Liquidity

Days Cash on Hand ($mm)	Actual			Projected												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Average Cash Balance	$93.9	$84.6	$87.6	$60.8	$41.6[1]	$42.9	$45.3	$49.8	$62.7[1]	$66.4	$53.6	$42.3	$37.2	$41.2	$46.1	$47.4
RUS Series A Note Prepaid Status	0.0	0.0	23.9	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	0.0	0.0	0.0
Lines of Credit	15.0	100.0	90.0	86.0	100.0	83.0	63.0	63.0	100.0	100.0	100.0	89.0	69.0	89.0	100.0	100.0
Total	$108.9	$184.6	$201.5	$181.8	$176.6	$160.9	$143.3	$147.8	$197.7	$201.4	$188.6	$166.3	$141.2	$130.2	$146.1	$147.4
Operating Expense	$216.8	$325.7	$467.5	$490.5	$543.7	$569.8	$602.3	$605.0	$641.7	$653.5	$667.2	$688.1	$706.7	$716.0	$734.7	$752.8
Days Liquidity, including Lines of Credit	183	207	157	135	119	103	87	90	113	113	103	88	73	66	73	72
Days Liquidity, excluding Lines of Credit	158	95	87	71	52	50	49	51	56	57	48	41	37	21	23	23
Days Liquidity, including Lines of Credit (April 2010 Forecast)			143	121	111	111	108	114	107	103	102	98	93	93	96	101
Days Liquidity, excluding Lines of Credit (April 2010 Forecast)			67	49	43	43	43	49	45	43	43	40	36	36	41	46

[1] *Cash Balance shown net of New RUS Note refinancings in 2012 and 2016.*

Big Rivers

Projected Non-Smelter Member Rates

($ /MWh)

	Actual			Projected												
Rate Derivation[1] ($ /MWh)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Smelter Members																
Base Rate	$34.57	$35.68	$35.33													
Amortize Regulatory Account	0.00	0.00	0.00	(0.36)	(1.31)	(1.43)	(0.88)	(0.31)	(0.28)	(0.53)	(0.67)	(0.53)	(0.35)	(0.35)	(0.36)	(0.38)
FAC	0.00	4.45	9.98	10.45	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	0.00	1.05	2.25	3.10	3.48	3.69	3.88	4.13	4.23	4.32	4.49	4.70	4.88	5.14	5.26	5.47
Surcredit	0.00	(1.53)	(3.30)	(3.44)	(4.05)	(4.01)	(3.97)	(3.91)	(3.86)	(4.91)	(5.19)	(5.12)	(5.05)	(4.97)	(4.90)	(4.82)
Rate Stabilization (Economic Reserve)																
Economic Reserve	0.00	(3.97)	(7.91)	(7.09)	(8.02)	(8.50)	(8.54)	(4.21)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rural Economic Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(3.15)	(7.17)	(7.09)	(2.08)	0.00	0.00	0.00	0.00	0.00
Blended Rate	$34.57	$35.68	$36.35													
Blended Rate (April 2010 Forecast)			$36.01	$38.02	$42.97	$43.94	$43.96	$43.84	$48.75	$48.57	$51.02	$56.20	$56.80	$60.01	$60.52	$61.15

[1] *Reflects accrual basis (vs. cash basis).*

Big Rivers

Projected Smelter Rates

Rate Derivation ($/MWh)[1] Smelters	Actual 2009	Actual 2010	Projected 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Large Industrial Rate @ 98%[2]	$30.18	$29.07													
Additional Smelter Charge	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Base Rate	30.43	29.32													
TIER Adjustment	1.95	1.95	1.95	2.95	2.79	2.95	1.79	3.55	3.55	4.15	4.15	4.15	2.93	4.14	4.75
Non-FAC PPA	(0.56)	(1.18)	(1.10)	(0.47)	(0.58)	(0.58)	(0.56)	(0.56)	(0.56)	(0.38)	(0.49)	(0.42)	(0.31)	(0.45)	(0.37)
FAC	10.38	10.13	10.46	13.61	15.32	16.63	17.32	18.42	19.22	20.18	21.10	22.10	22.98	24.04	25.03
Environmental Surcharge	2.45	2.26	3.09	3.48	3.69	3.88	4.14	4.24	4.32	4.50	4.71	4.88	5.14	5.25	5.47
Surcharges	1.57	1.57	1.57	1.87	1.87	1.87	1.87	1.87	2.42	2.60	2.60	2.59	2.60	2.60	2.60
Rebate (accrued)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effective Rate	**$46.22**	**$44.05**													
Effective Rate (April 2010 Forecast)		$43.25	$44.61	$49.90	$51.08	$51.92	$53.06	$55.42	$57.98	$59.36	$59.63	$60.66	$61.76	$63.24	$64.47

[1] *Reflects accrual basis (vs. cash basis).*

[2] *Actual may differ from Large Industrial Rate @ 98% load factor if metered energy is lower/higher than contract Base Fixed Energy.*

Appendix A: Additional Information

Big Rivers

Big Rivers' Coal-Fired Power Plants System Performance

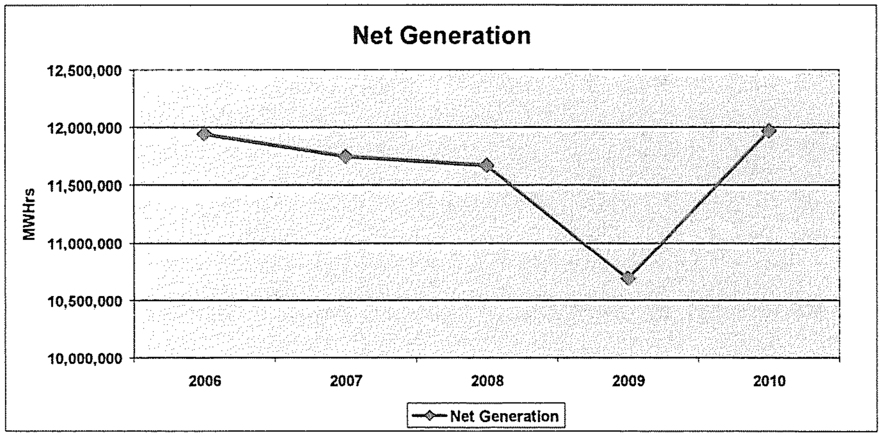
- Eight of the nine coal generating units are equipped with Flue Gas Desulphurization systems (FGDs) to control SO2 emissions
- Wilson 1, HMP&L 1 and HMP&L 2 are equipped with Selective Catalytic Reduction systems (SCRs) to control NOx emissions
- System performance is actively benchmarked against the industry utilizing GKS Navigant services. In the most recent benchmarking survey (2007 to 2010 Q3), Big Rivers displayed the following results when comparing O&M costs including fuel.
    - System capacity weighted O&M cost including fuel was - $5/MW less than the median cost ($31.61/MW vs. $36.63/MW).
    - Eight generating units operated below median cost with three of those generating units operating in the best quartile.

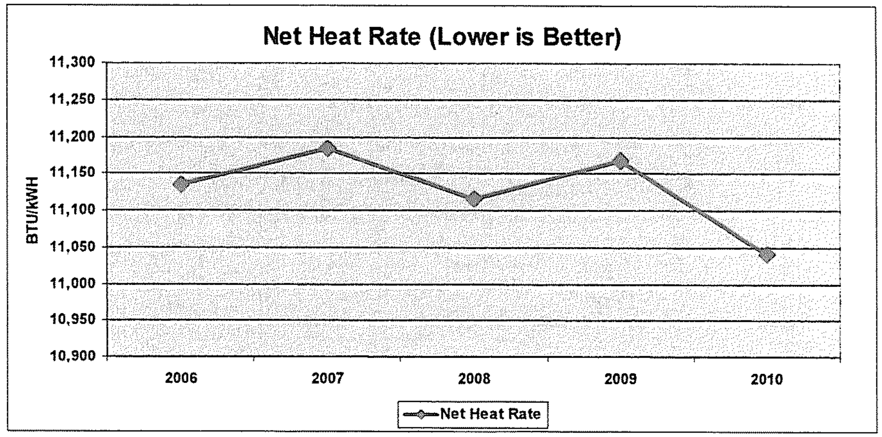
Key Performance Indicators per IEEE Standards (6 Year Averages 2005 thru 2010)

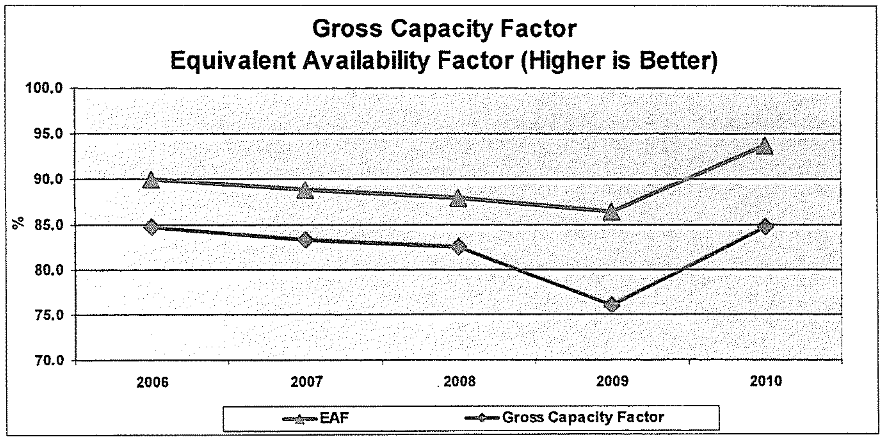
Unit	Net Generation (MWHrs)	Net Heat Rate (BTU/kWH)	Gross Capacity Factor (%)	Equivalent Availability Factor (%)	Equivalent Forced Outage Rate (%)
Coleman 1	944,941	10,702	72.5	87.8	5.2
Coleman 2	887,010	11,577	72.5	90.1	2.9
Coleman 3	983,149	10,600	73.4	88.2	6.1
Green 1	1,800,783	11,118	90.2	93.1	2.2
Green 2	1,708,046	11,278	88.6	92.7	1.6
Henderson 1	1,074,239	10,877	81.3	86.1	7.9
Henderson 2	1,107,773	11,147	80.3	88.5	3.9
Wilson 1	3,143,237	11,262	86.5	87.9	5.2
SYSTEM	**11,649,175**	**11,108**	**82.4**	**89.4**	**4.3**

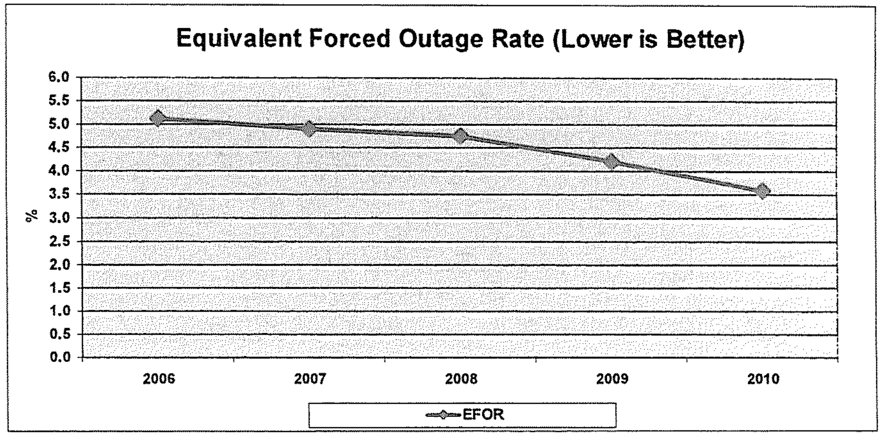
Big Rivers ELECTRIC CORPORATION
Your Touchstone Energy Cooperative

BREC System Performance 2006 - 2010









BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 32) ***Please provide copies of all prospectuses for any security issuances by BREC between January 1, 2009 and the present.***

Response) Please see the Offering Statement for the June 8, 2010, $83.3 million Pollution Control Refunding Bond issue which Big Rivers is providing on the CD accompanying these responses.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 33) *Please provide copies of credit reports for BREC between January 1, 2010 and the present from the major credit rating agencies published since January 1, 2010.*

Response) Please see the attached Big Rivers' credit rating reports since January 1, 2010, from Moody's, S&P and Fitch.

Witness) Mark A. Hite

Fitch Ratings: Big Rivers Electric Corporation – Full Rating Report – August 31, 2011

Case No. 2012-00063
Attachment for Response to Item AG 1-33
Witness: Mark A. Hite

Big Rivers Electric Corporation
Full Rating Report

Ratings

Outstanding Debt

$83,300,000 County of Ohio, KY Pollution Control Revenue Bonds Series 2010A	BBB–

Rating Outlook
Stable

Key Utility Statistics

Fiscal Year Ended 12/31/10

System type	Wholesale Electric
NERC Region	MISO
Number of Customers	3
Annual Revenues ($ Mil.)	530.06
Top User (% of Revenues)	53
Primary Fuel Source	Coal
Peak Demand (MW)	1,391
Energy Growth (%)	53.6
Debt Service Coverage (x)	1.32
Days Operating Cash	216.72
Equity/Capitalization (%)	31.85

Related Research
U.S. Public Power Peer Study — June 2011, June 20, 2011

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Key Rating Drivers

Risk Profile Reshaped: The recent termination of its generating asset lease transaction has reshaped the risks surrounding Big Rivers Electric Corporation (Big Rivers), effectively reducing leverage and financial risk in exchange for increased reliance on a concentrated customer base and the wholesale marketplace.

Abundant Low-Cost Resources: Big Rivers benefits from abundant low-cost power resources and an average wholesale system rate of $36.35 per MWh in 2010, net of credits, that is regionally competitive and among the lowest in the nation. Member retail rates are similarly low and competitive.

Heavy Customer Concentration: Big Rivers has resumed electric service to two local aluminum smelters through its largest member, Kenergy Corp. (Kenergy). The two smelters have a combined demand of 850 MW, and together account for approximately 53% of total energy sales.

Subject to Rate Regulation: The electric rates charged by Big Rivers and its members are regulated by the Kentucky Public Service Commission (KPSC), which limits the cooperative's financial flexibility, and may delay the timing or amount of necessary rate increases.

Acceptable Financial Metrics: Acceptable financial metrics for the rating category include fiscal 2010 debt service coverage (DSC) of 1.32x, and total debt to funds available for debt service (FADS) of 12.2x. Metrics improve to 1.78x (DSC) and 9.0x (debt to FADS) when revenues from member rate stability (MRS) reserves are included.

Forecast Stability: FADS and times interest earned ratios (TIER) are expected to remain relatively stable going forward, aided by the continued use of MRS reserves and a TIER-adjustment mechanism included in the cooperative's power sale agreements with the smelters.

What Could Trigger a Rating Action

Restrictive Rate Regulation: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

Onerous Environmental Regulation: Environmental regulations proposed by the U.S. Environmental Protection Agency (EPA), if adopted, could result in a much higher cost of compliance for the cooperative, versus other utilities with newer, more diversified resources.

Deteriorating Operating Conditions: Declining nonsmelter member sales, weak surplus energy sales, or constrained smelter operations that reduce financial margins and liquidity could also put downward pressure on the rating or Outlook.

Rating History

Rating	Action	Outlook/ Watch	Date
BBB–	Affirmed	Stable	8/12/11
BBB–	Assigned	Stable	7/2/09

Related Criteria

Revenue-Supported Rating Criteria, June 20, 2011

'' S. Public Power Rating Criteria, ·ch 28, 2011

Credit Profile

Big Rivers is a generation and transmission cooperative based in Henderson, KY. Big Rivers supplies wholesale electric and transmission from its total capacity of 1,824 MW to three distribution cooperatives: Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation, and Kenergy. These members provide service to a total of approximately 112,500 retail customers located in 22 western Kentucky counties.

Each of the three Big Rivers members purchases power pursuant to a wholesale power contract (WPC) that extends through Dec. 31, 2043, well beyond the final maturity date of the cooperative's outstanding debt. Under the terms of the WPCs, the members are required to purchase all of the power required to meet the needs of their systems, except Kenergy's requirements for the smelters (*see the Smelter Agreements section on page 4*).

Bankruptcy

In September 1996, Big Rivers filed for voluntary Chapter 11 relief under the U.S. Bankruptcy Code, due to an inability to sell power produced from its excess capacity at prices sufficient to cover its above-market costs.

After emerging from bankruptcy in 1998, and in accordance with its plan of reorganization, Big Rivers entered into a 25-year lease of all of its generating assets with Western Kentucky Energy Corp. (WKEC), at the time a wholly owned subsidiary of LG&E Energy Corp. (LG&E). The transaction essentially transferred the operational responsibilities of the assets and related risks in exchange for annual lease payments, and a fixed-price purchase power contract with LG&E Energy Marketing, Inc. (LEM), another subsidiary of LG&E.

The Unwind Transaction

In 2009, the lease with WKEC was effectively unwound, resulting in Big Rivers receiving cash and consideration with a value of $865 million, and gaining back control of its generation fleet. Big Rivers also resumed electric service to two local aluminum smelters that have historically dominated the service area's electric demand, and were supplied by LEM following the reorganization. The smelters will again represent a significant portion of the cooperative's electric demand

The consideration received in connection with the unwind allowed Big Rivers to pay down approximately $140 million of debt, establish $253 million of rate-stabilization reserves, and improve system equity from negative 19% to approximately 30%.

Management, Governance, and Business Strategy

The board of Big Rivers consists of six members, comprised of two from each of the member cooperatives. Two members are elected each year, and serve three-year terms. There are full board meetings once a month, often supplemented with more informal meetings when necessary. There are no specific committees given the small size of the board. According to Big Rivers, management has an excellent working relationship with the board.

Since completing the unwind transaction, Big Rivers has expanded its senior management team to include two new vice presidents for production, and governmental relations and enterprise risk management, to oversee the expanded responsibilities related to power supply. The cooperative's employee base has also grown to approximately 630 employees, including the production personnel acquired with the generating facilities, many of whom were employed by Big Rivers prior to the bankruptcy.

Fitch Ratings believes that the cooperative's post-unwind transition has progressed very well, due in large part to the many years of preparation undertaken by the Big Rivers management team in anticipation of the transaction.

Big Rivers assumed full operating responsibilities earlier this year without any disruption, although E.ON provided some initial support to the post-unwind transition, particularly in the areas of information technology and generation dispatch. In December 2000, Big Rivers became a fully integrated member of the Midwest Independent System Operator (MISO).

Regulation

Big Rivers and its members are subject to oversight by the KPSC, which constrains the board's rate-setting ability, compared to other public power and cooperative utilities that are self-regulated. The KPSC is an independent agency that regulates gas, water, sewer, electric, and telecommunications utilities in Kentucky.

Fitch views external rate regulation as limiting to financial flexibility, but the KPSC has been responsive to the needs of Big Rivers in recent years, particularly during the unwind approval process. The recent inclusion of rate tariffs, designed to allow the monthly recovery of fluctuations in the cost of fuel, purchased power, and costs related to environmental compliance, are credit positive, and are expected to lower the frequency of formal rate cases.

Big Rivers has also adopted a very proactive approach to rate setting (*see the Rates and Cost Structure section on page 7*), which is designed to anticipate the need for rate relief well in advance of the timetable required by the KPSC, and should increase the likelihood of timely rate relief. The KPSC will also allow utilities to file for emergency or interim rate relief that can be implemented within 30 days, if necessary, under certain circumstances. Corresponding retail rate increase requests are typically coordinated with those of Big Rivers, but members must file separately with the KPSC.

Member Profile and Service Area

Big Rivers serves three electric cooperatives, which together provide electric service to approximately 112,500 customers. While the operating profiles of Jackson Purchase and Meade are largely typical of rural electric cooperatives, including a heavy concentration of residential customer and electric sales, Kenergy's profile is somewhat unique because its electric load is dominated by two aluminum smelters. One smelter is owned by Rio Tinto Alcan Primary Products Corporation (Alcan), located in Sebree, KY, and the other is owned by Century Aluminum of Kentucky General Partnership (Century) in Hawesville, KY.

The Alcan and Century smelters accounted for 87.7% and 80.0% of the distribution cooperative's total energy sales and revenue, respectively, in 2010. By comparison, Jackson Purchase's entire large industrial load accounted for only 7.1% of its energy sales and 5.5% of revenue. An overview of the three members is provided on the next page.

Overview of the Big Rivers Members

	Jackson	Kenergy	Meade
Number of Consumers	29,152	54,991	28,267
Total MWh Sales	683,481	9,318,498	479,367
Total Revenues ($)	45,400	399,473	33,648
Number of Residential Consumers	26,053	45,201	26,213
MWh — % Residential	64.6	8.7	78.2
Revenues — % Residential	68.8	14.3	77.8
Number of Small Commercial/Industrial Consumers (1,000 KVA or Less)	3,080	9,680	2,048
MWh — % Small Commercial	28.1	3.6	21.5
Revenues — % Small Commercial	25.5	5.6	22.0
Number of Large Commercial/Industrial Consumers (1,000 KVA or Less)	7	34	0
MWh — % Large Commercial	7.1	87.7	0.0
Revenues — % Large Commercial	5.5	80.0	0.0

KVA – Kilovolt-ampere.
Source: Big Rivers.

The Aluminum Smelters

Aluminum smelting is energy-intensive, with power costs accounting for approximately 33% of a smelter's production costs. Access to Big River's low-cost power has therefore been positive for the smelters, as both operations are adjacent to the Big Rivers generating facilities. The aluminum smelters have been fixtures in the Big Rivers service territory since the 1970s, and remain the dominant employers in western Kentucky, with 1,375 employees in total. A brief discussion of each facility and its owner is provided below.

Alcan is owned by Rio Tinto (IDR 'A–'/Stable), an international mining group. Its Kentucky facility is the company's only U.S. aluminum smelter. Alcan has been operating at that facility since 1973. The company produces 186,000 metric tons of primary aluminum annually from its three potlines. The base contract demand under its agreement with Big Rivers is 368 MW, which results in annual energy consumption projected at 3.1 terawatt-hours (TWh), assuming 24/7 operations and a 98% load factor.

Century Aluminum Company, the general partnership's parent, is a public company that owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia, and Iceland. Operations at the facility in Hawesville began in 1970, and it currently produces 244,000 metric tons of primary aluminum from five potlines annually. The Century smelter's base contract demand is 482 MW, with projected annual consumption of 4.2 TWh.

Production at the smelting facilities has historically been relatively steady, although production at the Century facility was reduced from five potlines to four in the wake of declining aluminum prices in 2009–2010. Century's energy requirements fell from 4.1 TWh to approximately 3.3 TWh as a result. The fifth potline was recently returned to full utilization, and energy requirements have increased through 2011.

Smelter Agreements

In July 2009, as part of the unwind transaction, Big Rivers and Kenergy began supplying the sizable load requirements of the smelters, which had previously been the responsibility of LEM. Under the terms of various agreements, Big Rivers has agreed to supply energy to Kenergy, for resale to the smelters on a take-or-pay basis through the end of 2023, subject to certain termination conditions.

The smelter agreements are designed to provide all of their aggregate energy requirements, including base monthly energy (850 MW hourly), supplemental energy (10 MW hourly of interruptible energy to each smelter), and back-up energy (imbalance energy for Kenergy made available to the smelters). Surplus capacity is generally marketed off-system by Big Rivers for the ultimate benefit of the smelters.

Charges under the smelter agreements are designed to provide a slight premium (25 cents per MWh) over the rates charged to Kenergy's other large industrial customers. They also incorporate the cooperative's standard recovery clauses for fuel, environmental compliance expenditures, and purchased power.

The smelter agreements also include certain provisions that allow for adjustments in the amounts paid by the smelters, designed to enable Big Rivers to achieve a TIER of 1.24x for each fiscal year. During years in which the cooperative's ratio falls below the 1.24x threshold, additional payments are required by the smelters, subject to limitations. If the cooperative's TIER exceeds 1.24x during any fiscal year, amounts contributing to the excess coverage may be rebated to the members, with a pro rata portion allocated to the smelters.

Fitch views the smelter agreements as supportive to credit quality, but also notes that the support is somewhat limited, given the ability of the smelters to terminate the agreements upon one-year notice. Some additional comfort is derived from the conditional nature of the termination provision, which would also require that a smelter cease all smelting operations within the Kenergy service area to terminate the agreement, but the ability to rely on contract revenues over the long term is still limited.

Big Rivers Demand and Energy Sales

(MWhs)	2010	2009	2008	2007
Member Peak Demand (MW)	657	668	614	654
Total Peak Demand (MW)	1,391	1,308	614	654
Electric Sales — Members	3,411,558	3,159,032	3,312,709	3,327,805
Growth (%)	7.99	(4.64)	(0.45)	4.38
Electric Sales — Other	2,209,431	1,746,438	1,844,677	2,835,789
Growth (%)	26.51	(5.33)	(34.95)	37.51
Electric Sales — Smelter Contracts	6,348,431	2,885,491	0	0
Growth (%)	120.01	NM	NM	NM
Total Electric Sales	**11,969,420**	**7,790,961**	**5,157,386**	**6,163,594**
Growth (%)	53.63	51.06	(16.33)	17.39

NM – Not meaningful.
Source: Big Rivers.

Member energy demand has remained relatively stable since 2007, following a decline in 2009, due to unfavorable weather and economic weakness, and a subsequent rebound in 2010, as illustrated in the table above. However, member sales have become increasingly dominated by off-system sales of excess generating capacity and sales to the smelters following the unwind.

In 2010, member sales accounted for only 28.5% of total energy sales, reflecting a full year of sales under the smelter agreements. Big Rivers expects member load growth of approximately 1.4% per annum and declining market sales, as capacity is used to meet growing member demand. However, member sales are not expected to exceed 31% of total energy sales through 2019.

Assets and Operations

The Big Rivers resource portfolio and power supply is dominated by coal-fired generation, both owned and leased. Although coal-fired capacity accounts for 87% of the cooperative's resource capacity, coal-fired generation accounted for approximately 97% of total power supply in 2010. Purchases from the cooperative's Southeastern Power Administration allocation supplied most of the remaining power supply.

The current portfolio of assets and related capacity comfortably exceeds the forecast peak demand of the membership, including the massive smelter demand, and should remain adequate through the load forecast period (2025). No additional resources are contemplated at this time. The cooperative's current resources are summarized below.

Big Rivers Generating Resources

Owned Generation	Fuel Type	Capacity (MW)	Commercial Operation
Kenneth Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/Gas	65	1966
Combustion Turbine	Oil/Gas	65	1979
D.B. Wilson			
Unit 1	Coal	417	1986
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
(City of Henderson Capacity Allocation)		(110)	
Total Owned/Leased Generation		**1,651**	
Purchased Power			
SEPA Allocation		178	
Total Capacity		**1,824**	

HMP&L – Henderson Municipal Power & Light SEPA – Southeastern Power Administration
Source: Big Rivers.

Despite the changes in ownership and operating responsibility following the unwind, the Big Rivers plants have continued to perform well when compared to similarly sized and equipped units. For the period 2007–2010, six of the eight units reported equivalent availability factors (EAF) in the top quartile. The EAF for the entire system in 2010 was a record 93.7%.

Environmental Compliance

Big Rivers reports that all of its units are in compliance with current environmental standards. Currently, eight of the cooperative's nine coal units are equipped with flue gas desulphurization systems to control SO_2, and three of the units are equipped with selective catalytic reduction systems to control NOx emissions.

The cooperative could face greater-than-average challenges with respect to environmental regulations proposed by the EPA, given its near full reliance on coal-fired capacity and generation, and the characteristics of its fleet. Big Rivers estimates that full compliance with the regulations could require expenditures of approximately $785 million by 2015, and increase wholesale rates and member retail rates by 39% and 20%, respectively.

The cooperative has acknowledged that it may seek to mothball certain units or explore fuel conversion to natural gas as an alternative, given the advanced age and relatively small size of certain generating units. Any shortfall in capacity necessary to serve its load, including that of the smelters, would likely be purchased initially, until a longer term strategy is adopted.

There is no renewable portfolio standard at this time in the state of Kentucky.

Transmission

Big Rivers is nearing the completion of a significant transmission expansion project that was initiated in concert with the unwind transaction. The $20 million dual-phase project is designed to increase the cooperative's capability to export power off-system from 912 MW to approximately 1380 MW. This transfer capability is large enough to export excess generation, including the peak demand of both smelters.

Phase one of the transmission expansion project, which included a 345-kV tie with Kentucky Utilities Company, providing eastern path access to the Southwest Power Pool, was completed in April 2008. Big Rivers has recently been completing phase two expansion projects. The final project, construction of a 13-mile transmission line between the cooperative's D.B. Wilson generating facility and the Tennessee Valley Authority transmission system, is expected to be completed by year-end 2011.

Fitch views the cooperative's expanded export capability favorably, particularly given the prospect of significant excess capacity and reliance on off-system sales if the smelters were to discontinue operations. While the completion of the projects does not ensure the sale of excess capacity, it removes the physical constraints.

Coal Supply

The Big Rivers generating units are located nearby in the heart of the western Kentucky portion of Illinois Basin coal fields. Half of its coal supply is delivered by truck and half by barge, significantly reducing transportation costs and ultimate production costs. Big Rivers also assumed all of the WKEC coal supply contracts, many of which were favorably priced and have lowered the cost of production.

Capital Resource and Expenditure Plan

The Big Rivers' capital plan for 2011–2019 totals $460.7 million, and will largely be financed with internally generated funds. Nearly all of the remaining expenditures will be related to modest improvements at the cooperative's generating units, with the exception of the transmission expenditures noted above. The current capital plan does not incorporate any major expenditures for additional environmental compliance.

Rates and Cost Structure

Pursuant to the terms of the WPCs and the indenture, the Big Rivers board is required to review its wholesale rate at least annually and seek revisions to ensure covenant compliance, as necessary. Any change in rates charged by Big Rivers is subject to the approval of the KPSC.

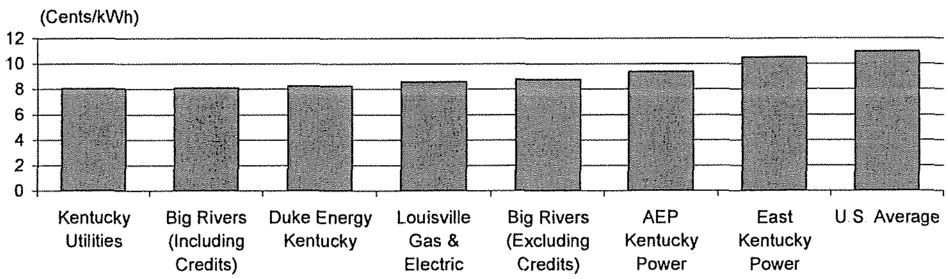
A number of factors mitigate the risks related to rate-regulation, including Big Rivers' proactive policies dictating annual reviews of the cooperative's annual budget and financial forecast. Big Rivers seeks to anticipate the need for rate relief well in advance of any projected revenue shortfall, given the anticipated seven-month time frame for KPSC approval and implementation of rate increases.

The rate structure flexibility approved by the KPSC as part of the unwind has also improved the timeliness of rate recovery. The KPSC has most notably implemented a fuel-adjustment clause, which allows Big Rivers to track changes in fuel costs and adjust rates accordingly on a monthly basis without further approval. The KPSC has also implemented an environmental surcharge to recover costs related to programs limiting the emissions of coal-fired generation.

The very competitive cost structure exhibited by Big Rivers, and the resulting wholesale and retail rates, among the lowest in the nation, are further mitigating regulatory risk. Although the competitiveness of the cooperative's wholesale and member retail rates are currently subsidized as a result of the MRS credit, charges excluding the credit are still relatively attractive. In 2010, Big Rivers reported a nonsmelter member wholesale rate of $36.35 per MWh. Excluding the MRS credit, the rate was $44.26 per MWh, comfortably below the average member revenue per MWh for cooperatives nationwide.

Member retail rates similarly remain equally competitive with the region's other power suppliers, and nationwide, largely due to low power costs. Retail rates for the smelters and Kenergy's other large industrial customers averaged 4.4 cents per kWh in 2010, well below the Kentucky state average of 6.0 cents per kWh. Residential rates across the membership are also solidly in line with neighboring utilities as shown below.

Average Residential Electric Rate — April 2011



Source: Big Rivers

Big Rivers filed for a general rate increase of 6.85% with the KPSC on March 1, 2011. Discovery, testimony, and public hearings were completed in July 2011, and a final order is expected from the KPSC in August, with new rates effective Sept. 1, 2011. The filing also seeks to redistribute certain costs across the various customer classes. Under the terms of the KPSC order approving the unwind, Big Rivers was required to file a rate case within three years of the closing. Big Rivers is filing for a rate increase sooner than expected, keeping with the policies noted earlier, and in response to lower than anticipated off-system revenues.

The cooperative's current financial forecast incorporates somewhat modest base rate increases, but actual wholesale rates are projected to increase significantly over time, due to a forecast increase in coal costs and the depletion of the MRS reserves. While the resulting 2019 rates for the smelters and non-smelter members are still expected to be regionally competitive, the higher cost of power to be borne by members may introduce some economic strain. The cooperative's current forecast does not include the potential cost effect of further environmental compliance, which would most likely introduce more strain.

Managing its power supply operations and the ultimate cost of its wholesale power in the wake of escalating costs, diminishing reserves, and potentially burdensome environmental regulations will be the single greatest challenge for Big Rivers, and the most important factor in the cooperative's future creditworthiness.

Financial Position

The significant changes in the operating profile of Big Rivers in recent years, particularly the effect of the unwind, make the comparison of historical financial metrics difficult. Fitch's assessment of Big Rivers' financial position is largely based on fiscal 2010 performance against budget (the first full year of post-unwind operations) and the cooperative's projected performance under both base case and stressed scenarios.

Financial performance for fiscal 2010 was relatively solid and virtually on budget. Operating margins for the year were slightly lower than forecast ($51.3 million versus $54.6 million forecast), as weaker wholesale prices for power were nearly offset by increased, but more efficient, generation. Net margins for the year were almost exactly on budget ($7.0 million versus $7.1 million budgeted). Actual figures reported by Big Rivers for TIER (1.14x), DSC (1.47x), and equity to capitalization (32%) were also solidly in-line with forecast performance.

Fitch-calculated ratios for DSC (1.32x) and total debt to FADS (12.2x) were commensurate with the current rating, and do not reflect the inclusion of withdrawals from the MRS reserve. Including those revenues, the metrics improve to 1.78x and 9.0x, respectively. Metrics for cash on hand (37 days, excluding the MRS reserves) and total liquidity on hand (109 days) were somewhat low for the cooperative's operating profile.

Fitch has reviewed Big River's financial forecast, and believes the near-term targets are achievable and based on reasonable assumptions. Maintenance of a TIER in excess of 1.0x, coupled with the absence of significant capital expenditures and the anticipated refunding of maturing debt, should allow the cooperative to gradually improve its liquidity and equity ratios to levels commensurate for the current rating.

Fitch has also reviewed Big Rivers' sensitivity analysis, which assumes the loss of both smelters at the end of 2012 and the sale of excess capacity at base case wholesale price projections. Maintaining coverage and cash levels consistent with the cooperative's goals would require average base rates approximately 15% higher than the base case projections for the period 2013–2017, based on the expectation that market-based sales can be executed. An increase of this magnitude is not unreasonable, but would likely strain the members and draw scrutiny from the KPSC. The current rating adequately reflects these risks.

Debt

At Dec. 31, 2010, Big Rivers reported total long-term debt of $817.0 million, the largest portion of which is the Rural Utilities Service (RUS) Series A note for $558.7 million, which has a final maturity of 2021, but requires payments of $60 million in 2012 and $200 million in 2016 as negotiated with the RUS. The cooperative's remaining long-term debt includes a RUS Series B note for $116.2 million, maturing in 2023, and two series of County of Ohio, KY, tax-exempt pollution control bonds, series 1983 and series 2010 A, totaling $58.8 million and $83.3 million, respectively.

The series 2010 A bonds were remarketed in June 2010 as fixed-rate bonds, with a final maturity of July 2031. The series 1983 bonds are currently held as bank bonds by the liquidity provider (Dexia Credit), bear interest at a variable rate, and mature in June 2013. As with the scheduled 2012 and 2016 RUS payments, Big Rivers expects to refinance the series 1983 maturity, introducing a moderate degree of refinancing risk, and reinforcing the importance of continued access to the capital markets. Fitch believes this risk is manageable.

Liquidity

Big Rivers maintains lines of credit totaling $100 million with CoBank, ACB ($50 million), and National Rural Utilities Cooperative Finance Corporation ($50 million), which provide additional liquidity for operations. The current lines of credit expire in 2012 and 2014, respectively, and are expected to be renewed upon expiration.

Member Cooperatives

The consolidated financial profile of the Big Rivers membership has improved marginally in recent years, and is supportive of the cooperative's rating. For the year ended Dec. 31, 2010, the members reported consolidated operating income before depreciation, interest, and taxes of $37.3 million on total revenues of $482.2 million, and an aggregate ratio for debt service coverage of 1.84x, as calculated by Big Rivers. The improved performance is due, in part, to the approval of rate increases at both Jackson Purchase and Kenergy. At year-end 2010, the members reported total net worth of $131 million, and an aggregate ratio of equity to capitalization of 35.9%. A summary of aggregate metrics for 2008–2010 is provided below.

Big Rivers Member Aggregate Financial Metrics

($ Mil.)	2008	2009	2010
Operating Revenues	434.0	422.8	482.2
Operating Income Before Depreciation, Interest, and Taxes	28.5	30.8	37.3
DSC (x)	1.46	1.52	1.84
TIER (x)	1.37	1.44	2.11
Net Debt	220.1	236.7	233.9
Total Margins Plus Equities	111.9	117.9	131.0
Equity/Capitalization (%)	33.7	33.2	35.9

DSC – Debt service coverage. TIER – Times interest earned ratios.
Source: Big Rivers

Financial Summary — Big Rivers Electric Cooperative

($000, Fiscal Years Ended Dec. 31)	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	2.93	2.64	1.24	3.52	1.78
Adjusted Debt Service Coverage with General Fund Transfer	2.93	2.64	1.24	3.52	1.78
Coverage of Full Obligations	2.01	1.87	1.19	2.88	1.49
Liquidity					
Days Cash On Hand	257	275	98	78	37
Days Liquidity On Hand	297	302	130	201	109
Leverage					
Debt/Funds Available for Debt Service (x)	7.6	7.0	7.3	2.3	9.0
Equity/Capitalization (%)	(26.0)	(19.6)	(17.5)	30.9	31.9
Equity/Adjusted Capitalization (%)	(18.4)	(13.4)	(13.3)	25.2	26.6
Net Debt/Net Utility Plant (x)	1.04	1.00	1.10	0.73	0.72
Other (%)					
Operating Margin	34.2	29.7	34.6	14.9	9.7
General Fund Transfer/Total Revenue	0.0	0.0	0.0	0.0	0.0
Capex/Depreciation	39.3	55.2	66.3	157.4	113.4
Income Statement					
Total Operating Revenues	**258,588**	**329,870**	**273,181**	**373,360**	**527,324**
Total Operating Expenses	170,260	231,836	178,542	317,668	476,072
Operating Income	88,328	98,034	94,639	55,692	51,252
Adjustment to Operating Income for Debt Service Coverage	50,176	53,963	47,075	37,951	40,384
Funds Available for Debt Service	138,504	151,997	141,714	362,180	91,636
Total Annual Debt Service	**47,277**	**57,559**	**114,211**	**102,849**	**51,453**
Balance Sheet					
Unrestricted Funds	96,143	148,914	38,903	60,290	44,780
Restricted Funds	186,690	192,932	—	243,225	217,562
Total Debt	**1,053,034**	**1,061,737**	**1,039,120**	**848,552**	**826,996**
Equity and/or Retained Earnings	(217,371)	(174,137)	(154,602)	379,392	386,575

Source: Fitch Ratings and CreditScope.

Moody's Investor Services: Big Rivers Electric Corporation – Issuer Comment – July 18, 2011

Case No. 2012-00063
Attachment for Response to Item AG 1-33
Witness: Mark A. Hite

MOODY'S
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ISSUER COMMENT

Big Rivers Electric Corporation

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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 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 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

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

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	A	Baa	Ba	B
Factor 1: Wholesale Power Contracts & Regulatory Status (20%)						
a) % Member Load Served & Regulatory Status			X			
Factor 2: Rate Flexibility (20%)						
a) Board Involvement / Rate Adjustment Mechanism				X		
b) Purchased Power / Sales %		19%				
c) New Build Capex (% Net PP&E)		X				
d) Rate Shock Exposure						X
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		

Report Number: 134388

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Standard and Poor's: Big Rivers Electric Corporation – Global Credit Portal – July 6, 2011

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July 6, 2011

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Highly Competitive Rates

Related Criteria And Research

Big Rivers Electric Corp., Kentucky Ohio County; Rural Electric Coop

Credit Profile		
Big Rivers Electric Corp. ICR		
Long Term Rating	BBB-/Stable	Affirmed
Ohio Cnty, Kentucky		
Big Rivers Electric Corp., Kentucky		
Ohio Cnty (Big Rivers Electric Corp.) poll ctrl rfdg rev bnds (Big Rivers Elec Corp Proj) ser 2010A		
Long Term Rating	BBB-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB-' issuer credit rating on Big Rivers Electric Corp., Ky., and its 'BBB-' long-term rating on Ohio County, Ky.'s $83.3 million pollution control refunding revenue bonds, series 2010A (Big Rivers Electric Corp. Project). The outlook is stable.

Ohio County sold the bonds for the benefit of Big Rivers, which used bond proceeds to refund auction rate securities. We understand that the financing structure obligates the utility to unconditionally pay the county's bonds' debt service. Big Rivers issued a note to the county that provides it with a security interest in Big Rivers' assets under its mortgage indenture. The county's bonds' security interest is on par with the utility's senior-secured debt. Big Rivers' long-term debt totaled $817 million as of December 31, 2010.

The ratings reflect our view of the following credit weaknesses:

- We believe that the utility's extreme level of customer concentration and its leading customers' credit profiles represent meaningful credit exposures. The cooperative relies on two customers for about 65% of energy sales to members and 53% of total member and non-member energy sales. These two customers are aluminum smelters whose operations are vulnerable to economic cycles.
- In our opinion, the take-or-pay features of the retail power sales contracts between Big Rivers' distribution cooperative, Kenergy Corp., and the smelters are weak because the smelters can terminate their obligations with one-year's notice.
- The cooperative and its member distribution cooperatives are subject to state rate regulation that distinguishes Big Rivers from many other cooperatives that have autonomous ratemaking authority. Rate regulation could potentially expose the utilities' financial performance to delayed rate relief or cost disallowances, particularly if Big Rivers needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers.
- Surplus energy sales in volatile wholesale markets account for about 16% of energy sales, are important to the utility's revenue stream, and help support its financial obligations.
- The cooperative is adding transmission capacity to increase physical access to wholesale markets. However, even with the additions, we believe the utility lacks the certainty of firm contractual transmission arrangements, which could frustrate the surplus power sales Big Rivers would need to make if the smelters reduce operations meaningfully or close.
- Nearly one-third of the utility's debt either does not amortize before maturity or has limited amortization, which

produces highly uneven debt service coverage ratios (DSCRs) and presents refinancing risk.

- In July 2009, Big Rivers regained operational control over generation assets it had not operated for more than a decade and has a limited track record of generation operations.

We believe these strengths temper the exposures:

- The long-term wholesale power contracts between the utility and its three member distribution cooperatives provide a measure of revenue stream security.
- Members have exclusive rights to sell electricity in defined territories.
- We believe that Big Rivers' members' retail rates are competitive and they could contribute to financial flexibility. However, members' favorable rates depend on the smelters' operating at high load factors that help absorb high fixed costs. Rate levels also benefit from the subsidies that more than $200 million of rate mitigation reserves provide.

Henderson, Ky.-based Big Rivers is a generation and transmission cooperative that produces and procures electricity for sale to three member distribution cooperatives and their more than 112,000 retail customers. It relies on two aluminum smelters for more than half of operating revenues, which erodes revenue stream stability and predictability and distinguishes the utility from most cooperative utilities that generally earn the bulk of revenues from residential customers. Moreover, Big Rivers projects that it needs to sell surplus energy into competitive wholesale markets to support its financial obligations. Nonmember revenues accounted for about 16% of 2010's operating revenues. We believe that reductions in the smelters' operations and electricity consumption could increase market reliance. Also, declines in wholesale market electricity prices due to weak natural gas prices or abundant supplies could erode margins from market sales and place upward pressure on the costs that the utility's nonsmelter customers bear.

Outlook

The stable outlook reflects our expectations that the sound debt service coverage Big Rivers projects could provide a financial cushion to service debt obligations under adverse conditions that could arise from the operational, financial and regulatory challenges the utility faces. We believe management needs to actively oversee these challenges to preserve credit quality. In our view, the ratings' upward potential is limited in the near term because the utility must refinance considerable bullet maturities, depends on volatile smelter loads for substantial revenues, and relies on volatile wholesale energy markets for meaningful portions of its revenue requirements.

Customer Concentration Creates Concerns

We believe Big Rivers faces an extreme level of customer concentration and it leading customers' credit profiles represent meaningful credit exposures. In 2010, two of the more than 112,000 end-use customers accounted for more than half of operating revenues. These two, Rio Tinto Alcan Inc. (Alcan; A-/Stable/A-2) and Century Aluminum Co. (B/Stable/--), are aluminum smelters whose operations and financial performance are exposed to extreme commodity price volatility. We believe these companies' economic viability hinges on aluminum prices and the economy's strength, among other things. Big Rivers expects Century's electricity purchases to provide about 36% of its revenues, which meaningfully exposes the cooperative's financial performance to a single speculative-grade customer's cash flows.

If Alcan or Century reduces or ceases operations at their Kentucky facilities, Big Rivers would need to sell surplus electricity in competitive wholesale markets in a bid to recover substantial portions of its fixed costs. The several agreements that Big Rivers, Kenergy, and the smelters signed provide that certain profits from market sales following curtailment inure to the smelters' benefit. The agreements also provide that the smelters must cover the cooperative's losses resulting from market sales following curtailment.

Given Century's weak credit quality, its ability to make up shortfalls is questionable. If the smelters terminate operations, their Big Rivers obligations end. While the cooperative might retain profits from off-system sales in this scenario it will also bear the risk of losses.

We believe that selling electricity in wholesale markets to cover debt service presents meaningful credit challenges because wholesale market sales represent speculative and unpredictable revenue streams. Wholesale markets expose utilities to volatile prices, competing market participants, operational uncertainties such as acquiring physical access to transmission capacity, and potentially higher liquidity needs.

Retail Power Sales Contracts

We believe that the take-or-pay features of the retail power sales contracts between Kenergy and the smelters are weak.

Kenergy is one of Big Rivers' three member distribution cooperatives. It resells the cooperative's electricity to the smelters under power supply contracts expiring in 2023. These contracts have take-or-pay elements that require the smelters to pay for specific quantities of energy, irrespective of whether they need it. Yet we believe that these contracts' take-or-pay features are weak and do not provide meaningful credit protections. For example, the smelters can terminate their contracts on one year's notice without penalties if they close their Kentucky facilities.

Financial Performance

We believe Big Rivers' financial performance could suffer if the Kentucky Public Service Commission (PSC) does not provide timely rate relief or disallows costs, particularly if the utility needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers.

In our view, if the smelters close their operations and Big Rivers cannot fully recoup the smelters' share of fixed costs through surplus electricity sales in competitive wholesale markets, its nonsmelter retail customers might need to bear substantial additional costs. The cooperative will not have control over revenues from electricity sales in competitive wholesale markets to compensate for eroded smelter activity. Moreover, it can only recover shortfalls from the nonsmelter retail customers if it and its distribution cooperative members can obtain rate relief from the Kentucky PSC.

Big Rivers and its member distribution cooperatives are unlike many other cooperative utilities because they cannot autonomously raise rates to respond to increasing costs or to reallocate costs. The Kentucky PSC regulates these utilities' wholesale and retail electricity rates. Rate regulation presents credit concerns because rate proceedings can be lengthy and delay cost recovery. Moreover, rate-regulated utilities do not have cost recovery guarantees. Nevertheless, in recent rate proceedings, the Kentucky PSC provided Big Rivers' distribution cooperatives with rate relief that was closely aligned with the utilities' requests. Also, the commission took steps in connection with the

E.ON generation asset lease termination that we view as supporting credit quality, including directing E.ON to fund rate-stabilization accounts benefiting the cooperative members' nonsmelter, retail customers.

We believe that Big Rivers' 2010 nonsmelter member wholesale rates of $36 per megawatt-hour (MWh) indicate capacity for further rate increases as necessary to reallocate costs to the cooperative's nonsmelter customers. Big Rivers applied in March 2011 for rate increases effective Sept. 1, 2011. The filing requests a 5.94% rate increase for large industrial customers and a 5.47% rate increase for the smelters. Big Rivers is requesting a 10.71% increase for the nonsmelter, nonindustrial customers. The blended requests represent a 6.85% rate increase. The utility expects that lower purchase power adjustment factor costs will reduce the blended effective rate increase to 6.17%.

Debt Service Coverage

Based on Big Rivers' fiscal 2010 financial statements, Standard & Poor's calculated accrual and cash from operations debt service coverage of 1.4x, which was strong but about 20 basis points below projected coverage levels. While off-system sales volumes exceeded expectations, the sales were made at lower-than-expected prices due to weak wholesale electricity markets. Big Rivers' experience with low wholesale markets in 2010 underscores the considerable risks of wholesale market activity.

The cooperative achieved 2010's DSCR by reducing expenses, including deferring maintenance. It also applied reserve monies to the prepayment of a portion of its Rural Utility Service debt to reduce interest expense inasmuch as the benefits of maintaining reserves in a low interest rate environment paled in comparison to the cost of servicing debt.

Based on Big Rivers' financial forecast, we have calculated accrual-basis DSCRs that fluctuate considerably through 2013. The variability reflects the cooperative's use of nonamortizing debt that underlies highly uneven 2011-2013 debt service. Our calculations indicate DSCRs of 2.6x in 2011, 1.3x in 2012, and 2013 and 2.3x in 2014. The forecast assumes Big Rivers receives the full rate relief it requested earlier this year.

About one-third of debt is nonamortizing. Scheduled principal repayments for 2011 are a low $7 million, but jump to $76 million in 2012 and $79 million in 2013 before returning to a more moderate $22 million in 2014 and $23 million in 2015. Consequently, the imminent bullet maturities highlight the relative importance of market access for refinancing compared to debt service coverage as important credit factors through 2013.

Generation Assets Could Pose Problems

We believe that Big Rivers' few vintage, coal-fired generation assets present operational exposures that can affect financial performance. The cooperative sells the electricity it produces at its seven owned coal plants and the two coal plants it operates that Henderson's Municipal Power and Light utility own. Big Rivers operates and has contractual rights to nearly 1,800 megawatts (MW) of generation capacity. Its and Henderson's power plants range in age from 24-41 years, with a weighted average age of 32 years, based on contributions to overall generating capacity.

Big Rivers' wholesale electric rates include automatic fuel and purchased power cost adjustment mechanisms that we believe mitigate some credit concerns surrounding the mature fleet's ability to serve native load customers reliably. These true-up mechanisms shift some of the operational risks of operating older units to the smelter and nonsmelter customers by making them responsible for replacement power costs if units are not running.

While the fuel adjustment is an automatic, formulaic, monthly adjustment, the purchased power cost adjustment is only automatic for the smelters. Before they are eligible for recovery in rates, the PSC must review the power purchase costs Big Rivers incurs on behalf of its nonsmelter customers. All costs recoverable under the adjustment mechanisms are subject to PSC prudence reviews.

There is a two-month lag for the fuel adjustment clause between when costs are incurred and when the cooperative recovers the member portion through rates. Similarly, the purchase power adjustment for the smelters also entails a two-month cost recovery lag. The purchase power adjustment covering the smelters applies to only approximately two-thirds of the costs. The remaining third of is deferred as a regulatory account for recovery in base rates in a general rate case.

Some of Big Rivers' plants have what we believe are high heat rates. Its fleet's heat rates range from 10,600-13,382 BTU per kilowatt-hour with a weighted average heat rate of 11,100, reflecting the small percentage of the fleet with the highest heat rates. We are concerned that portions of the fleet might not dispatch to support market sales that compensate for losses of smelter sales.

Big Rivers projects using coal to produce 95% of the electricity it sells, exposing the utility and its customers to potentially higher operating costs as the regulation of carbon and other emissions progresses. The plants' heat rates contribute to carbon intensity in the range of 1.1 tons of coal per MWh. Their ages, heat rates, and carbon intensity raise questions about their ability to compete against potentially more efficient and less carbon-intensive units in wholesale markets if the smelters reduce or end their cooperative electric purchases. In our view, the extent of carbon regulation will determine the effects of this level of carbon intensity on Big Rivers' production facilities' economics.

Because aluminum smelting is a carbon-intensive process, we believe a combination of costly carbon constraints on aluminum production and carbon charges levied on the smelters' electricity purchases could impair their operations and heighten the likelihood that the cooperative's generating assets might have to compete in wholesale markets.

Transmission Expansion Plans

Big Rivers' expects to complete transmission upgrades in the fall of 2011. Until completed, the utility lacks sufficient capacity to market the smelters' power if both sharply reduce or discontinue operations. Even once completed, we believe that the cooperative's lack of firm contractual access rights could frustrate its ability to move power across others' transmission systems, including, the Tennessee Valley Authority (TVA) system.

Big Rivers only has contracts for 100 MW of firm transmission capacity across the TVA system. Management views the high cost of securing firm transmission access for a contingent exposure as unwarranted. The utility has physical interconnections with other power markets beyond TVA, such as the Midwest Independent System Operator and E.ON. However, Big Rivers' electricity needs to cross TVA's transmission system to access key markets such as Southern Co. and Entergy Corp. Lack of transmission access due to fully loaded lines during peak periods could frustrate the cooperative's ability to capture the most robust power prices for surplus power it might need to sell if it loses smelter loads.

Power Contracts Provide Some Revenue Stability

In our opinion, the long-term wholesale power contracts between Big Rivers and its three member distribution cooperatives provide a measure of revenue stream security.

The cooperative and its members extended their wholesale power sales contracts 20 years to 2043 in connection with the E.ON generation asset lease unwind transaction. We view this long tenor as contributing to credit quality because we understand that terms of wholesale power contracts between the utility and its three members require the members to purchase their electricity needs from Big Rivers. Furthermore, the members have exclusive rights to sell electricity within defined service territories, which shields the cooperative and its members from competition.

Big Rivers' long-term wholesale power contracts also contribute to credit quality because they extend beyond its debt's final maturity. Debt outstanding matures by 2031. However, about 11% of debt matures after the contracts with the smelters expire in 2023. Debt that matures after the smelter contracts roll off could lead to heightened wholesale market exposure, which we view as a credit weakness. Furthermore, Big Rivers expects that imminent refinancings of bullet maturities could extend debt even further beyond the smelter contracts' expiration.

Generally, lengthy requirements contracts, such as those of the cooperative, provide meaningful revenue predictability and credit support. However, the members' substantial reliance on two industrial loads that are vulnerable to commodity price cycles erodes the contracts' credit support and distinguishes Big Rivers from most other cooperative utilities. Rate regulation also dilutes the benefits of the long-term wholesale power contracts since the cooperative, unlike most others, cannot unilaterally impose additional costs on its captive customers, which could frustrate a reallocation of fixed costs if it loses smelter loads. Also, Big Rivers lacks control over prices for market sales it may need to make if the smelters' operations falter, tempering the wholesale power contracts' benefits.

Highly Competitive Rates

We view Big Rivers' members' retail rates as highly competitive, and they could contribute to financial flexibility.

Energy Information Administration data shows that the cooperative's members' retail rates compare very favorably with average rates for the residential, commercial, and industrial sectors in Kentucky. Members' 2009 average residential and commercial rates were about 15% below the state's average. Industrial rates for Kenergy, the member with the smelter, and other industrial loads were about 25% below the state's in 2009.

We believe the smelters' high load factors are likely contributors to the favorable rate competitiveness across the system because their high electricity consumption provides a robust platform for spreading fixed costs over many MWh. Here too, the exposure to the smelters can become a liability if commodity prices or economic conditions compromise the smelters' operations.

Rates also benefit from the more than $200 million of rate mitigation reserves from the proceeds of the E.ON lease unwind transaction. The utility plans to deploy an average $24 million of the reserves' balances each year through 2017 to subsidize rate levels. The cooperative's forecast shows that this will enhance operating revenues by about 5% each year and we believe that there could be meaningful upward rate pressure once the reserves are exhausted.

Related Criteria And Research

USPF Criteria: Applying Key Rating Factors To U.S. Cooperative Utilities, Nov. 21, 2007

Standard and Poor's – Rating Agency Reports

Case No. 2012-00063
Attachment for Response to Item AG 1-33
Witness: Mark A. Hite

STANDARD
&POOR'S

130 East Randolph Street
Suite 2900
Chicago, IL 60601
tel 312 233-7001
reference no.: 40298153

July 5, 2011

Big Rivers Electric Corporation
201 Third Street
P.O. Box 24
Henderson, KY 42420
Attention: Mr. C. William Blackburn, CMA, Chief Financial Officer

Re: ***Big Rivers Electric Corporation, Kentucky, Issuer Credit Rating***

Dear Mr. Blackburn:

Standard & Poor's has reviewed the Issuer Credit Rating on the above-referenced issuer After such review, we have affirmed the "BBB-" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor’s Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor’s, please visit our website at www.standardandpoors.com . We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

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Information to be Provided by You. For so long as this Agreement is in effect, in connection with the rating provided hereunder, you warrant that you will provide, or cause to be provided, as promptly as practicable, to Ratings Services all information requested by Ratings Services in accordance with its applicable published ratings criteria. The rating, and the maintenance of the rating, may be affected by Ratings Services' opinion of the information received from you or your agents or advisors. You further warrant that all information provided to Ratings Services by you or your agents or advisors regarding the rating or, if applicable, surveillance of the rating, as of the date such information is provided, (i) is true, accurate and complete in all material respects and, in light of the circumstances in which it was provided, not misleading and (ii) does not infringe or violate the intellectual property rights of a third party. A material breach of the warranties in this paragraph shall constitute a material breach of this Agreement.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean verbal or written information that you or your agents or advisors have provided to Ratings Services and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is “Confidential”. Notwithstanding the foregoing, information disclosed by you or your agents or advisors to Ratings Services shall not be deemed to be Confidential Information, and Ratings Services shall have no obligation to treat such information as Confidential Information, if such information (i) was known by Ratings Services or its affiliates at the time of such disclosure and was not known by Ratings Services to be subject to a prohibition on disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by an act of Ratings Services or its affiliates) subsequent to such disclosure, (iv) is disclosed to Ratings Services or its affiliates by a third party subsequent to such disclosure and Ratings Services reasonably believes that such third party’s disclosure to Ratings Services or its affiliates was not prohibited, (v) is developed independently by Ratings Services or its affiliates without reference to the Confidential Information, (vi) is approved in writing by you for public disclosure, or (vii) is required by law or regulation to be disclosed by Ratings Services or its affiliates. Ratings Services is aware that U.S. and state securities laws may impose restrictions on trading in securities when in possession of material, non-public information and has adopted securities trading and communication policies to that effect.

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Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an “expert” or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Ratings Services is not an "underwriter" or "seller" as those terms are defined under applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation Sections 11 and 12(a)(2) of the U.S. Securities Act of 1933. Rating Services has not performed the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with this engagement.

Office of Foreign Assets Control. As of the date of this Agreement, (a) neither you nor the issuer (if you are not the issuer) or any of your or the issuer’s subsidiaries, or any director or corporate officer of any of the foregoing entities, is the subject of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC Sanctions”), (b) neither you nor the issuer (if you are not the issuer) is 50% or more owned or controlled, directly or indirectly, by any person or entity (“parent”) that is the subject of OFAC Sanctions, and (c) to the best of your knowledge, no entity 50% or more owned or controlled by a direct or indirect parent of you or the issuer (if you are not the issuer) is the subject of OFAC sanctions. For so long as this Agreement is in effect, you will promptly notify Ratings Services if any of these circumstances change.

Ratings Services’ Use of Confidential and Private Ratings. Ratings Services may use confidential and private ratings in its analysis of the debt issued by collateralized debt obligation (CDO) and other investment vehicles. Ratings Services may disclose a confidential or private rating as a confidential credit estimate or assessment to the managers of CDO and similar investment vehicles. Ratings Services may permit CDO managers to use and disseminate credit estimates or assessments on a limited basis and subject to various restrictions; however, Ratings Services cannot control any such use or dissemination.

Entire Agreement. Nothing in this Agreement shall prevent you, the issuer (if you are not the issuer) or Ratings Services from acting in accordance with applicable laws and regulations. Subject to the prior sentence, this Agreement, including any amendment made in accordance with the provisions hereof, constitutes the complete and entire agreement between the parties on all matters regarding the rating provided hereunder. The terms of this Agreement supersede any other terms and conditions relating to information provided to Ratings Services by you or your agents and advisors hereunder, including without limitation, terms and conditions found on, or applicable to, websites or other means through which you or your agents and advisors make such information available to Ratings Services, regardless if such terms and conditions are entered into before or after the date of this Agreement. Such terms and conditions shall be null and void as to Ratings Services.

Limitation on Damages. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to you, your affiliates or any person asserting claims on your behalf, directly or indirectly, for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to the rating provided hereunder or the related analytic services even if advised of the possibility of such damages or other amounts except to the extent such damages or other amounts are finally determined by a court of competent jurisdiction in a proceeding in which you and Ratings Services are parties to result from gross negligence, intentional wrongdoing, or willful misconduct of Ratings Services. In furtherance and not in limitation of the foregoing, Ratings Services will not be liable to you, your affiliates or any person asserting claims on your behalf in respect of any decisions alleged to be made by any person based on anything that may be perceived as advice or recommendations. In the event that Ratings Services is nevertheless held liable to you, your affiliates, or any person asserting claims on your behalf for monetary damages under this Agreement, in no event shall Ratings Services be liable in an aggregate amount in excess of US$5,000,000 except to the extent such monetary damages directly result from Ratings Services' intentional wrongdoing or willful misconduct. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. Neither party waives any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Termination of Agreement. This Agreement may be terminated by either party at any time upon written notice to the other party. Except where expressly limited to the term of this Agreement, these Terms and Conditions shall survive the termination of this Agreement.

No Third-Party Beneficiaries. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary of this Agreement or of the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

Reservation of Rights. The parties to this Agreement do not waive, and reserve the right to contest, any issues regarding sovereign immunity, the applicable governing law and the appropriate forum for resolving any disputes arising out of or relating to this Agreement..

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Fitch Ratings – Rating Agency Reports

Case No. 2012-00063
Attachment for Response to Item AG 1-33
Witness: Mark A. Hite

FitchRatings

FITCH AFFIRMS BIG RIVERS ELECTRIC CORP, KY'S 2010A POLLUTION CONTROL RFDG REV BONDS AT 'BBB-'

Fitch Ratings-New York-12 August 2011: As part of ongoing surveillance, Fitch Ratings affirms the 'BBB-' rating on the $83.3 million County of Ohio, KY's pollution control refunding revenue bonds (Big Rivers Electric Corporation Project).

The Rating Outlook is Stable.

Fitch is also withdrawing its issuer credit rating for Big Rivers, which was assigned prior to Fitch assigning a rating on any of Big Rivers' publicly held bonds.

SECURITY

The bonds are secured by a mortgage lien on substantially all of the corporation's owned tangible assets, which include the revenue generated from the sale or transmission of electricity.

KEY RATING DRIVERS

Risk Profile Reshaped: The recent termination of its generating asset lease transaction has reshaped the risks surrounding Big Rivers, effectively reducing leverage and financial risk in exchange for increased reliance on a concentrated customer base and the wholesale marketplace.

Abundant Low-Cost Resources: Big Rivers benefits from abundant low-cost power resources and an average wholesale system rate ($36.35/MWh [megawatt hour] in 2010, net of credits) that is among the lowest in the nation. Member retail rates are similarly low and competitive.

Heavy Customer Concentration: Big Rivers has resumed electric service, through its largest member Kenergy Corp., to two local aluminum smelters (a combined demand of 850 MW at a 98% load factor) that account for approximately 53% of total energy sales.

Subject to Rate Regulation: Big Rivers' and its members' electric rates are regulated by the Kentucky Public Service Commission (KPSC), which limits the cooperative's financial flexibility and may hinder necessary rate increases.

Acceptable Financial Metrics: Acceptable financial metrics for the rating category include fiscal 2010 debt service coverage (DSC) of 1.32 times (x) and total debt/funds available for debt service (FADS) of 12.2x. Including revenues from member rate stability (MRS) reserves, metrics improve to 1.78x (DSC) and 9.0x (debt/FADS).

Forecasted Stability: FADS and times interest earned ratios (TIER) are expected to remain relatively stable going forward, aided by the continued use of MRS reserves and a TIER adjustment mechanism included in the cooperative's power sale agreements with the smelters.

WHAT COULD TRIGGER A RATING ACTION

Restrictive Rate Regulation: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

Onerous Environmental Regulation: Environmental regulations proposed by the U.S. Environmental Protection Agency (EPA), if adopted, could result in a much higher cost of compliance for the cooperative versus other utilities with newer, more diversified resources.

Deteriorating Operating Conditions: Declining non-smelter member sales, weak surplus energy sales, or constrained smelter operations that reduce financial margins and liquidity could also put downward pressure on the rating or Outlook.

CREDIT PROFILE

Big Rivers is a generation and transmission cooperative based in Henderson, Kentucky. Big Rivers supplies wholesale electric and transmission from its total capacity of 1,829 MW to three distribution cooperatives - Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation and Kenergy Corp. Combined, these members provide service to approximately 112,500 retail customers located in 22 western Kentucky counties.

Emergence from Bankruptcy

In September 1996, Big Rivers filed for voluntary Chapter 11 relief under the U.S. Bankruptcy code, generally due to an inability to sell power produced from its excess capacity at prices sufficient to cover its above-market costs. After emerging from bankruptcy in 1998, and in accordance with its plan of reorganization, Big Rivers entered into a 25-year lease of all its generating assets with Western Kentucky Energy Corp. (WKEC). The transaction essentially transferred the operational responsibilities of the assets and related risks in exchange for annual lease payments, and a fixed price purchase power contract with LG&E Energy Marketing, Inc. (LEM).

Unwinding the Lease Transaction

In 2009, the lease with WKEC was effectively 'unwound, resulting in Big Rivers receiving cash and consideration totaling $865 million and resuming control of its generation fleet. Big Rivers also resumed electric service to two local aluminum smelters that have historically dominated the service area's electric demand and were supplied by LEM following the reorganization. Going forward, the smelters will again represent a significant portion of the cooperative's electric demand.

The consideration received in connection with the unwind allowed Big Rivers to pay down approximately $140 million of debt, establish $253 million of rate stabilization reserves and improve system equity from (19%) to approximately 30%.

Financial Performance Acceptable for Rating Category

Fiscal 2010 financial performance was relatively solid and generally on budget. Electric operating margins ($51.3 million) for the year were slightly lower than forecasted. Weaker wholesale prices for power were nearly offset by increased, but more efficient, generation. Net margins for the year were almost exactly on budget ($7 million). Actual figures reported by Big Rivers for conventional TIER (1.15x), DSC (1.47x) and equity/capitalization (32%) were also solidly in line with forecasted performance.

Fitch-calculated ratios for DSC (1.32x) and total debt/FADS (12.2x) were acceptable for the current rating category and do not reflect the inclusion of withdrawals from reserves. Including those revenues, the metrics improve to 1.78x and 9.0x, respectively. Metrics for cash on hand (37 days, excluding reserves) and total liquidity on hand (109 days) were somewhat low for the cooperative's operating profile.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', June 20, 2011;
--'U.S. Public Power Rating Criteria', March 28, 2011.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs.'

Applicable Criteria and Related Research:
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=613065
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130

U.S. Public Power Rating Criteria

Sector-Specific Criteria

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Related Research

2012 Outlook: U.S. Public Power and Electric Cooperative Sector, Dec. 7, 2011

Time to Retire? II The Update to Coal ant Retirements, Nov. 17, 2011

S. Public Power Distribution Systems, Nov 17, 2011

U.S. Public Power Peer Study — June 2011, June 20, 2011

Transferring from Power: Transfer and PILOT Payment Characteristics in the Public Power Sector, April 25, 2011

Time to Retire? U.S. Coal Plants in Environmental Crosshairs, Feb. 28, 2011

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Summary

Five Key Areas: This report is a sector-specific extension of Fitch Ratings' global master criteria report, "Revenue-Supported Rating Criteria," and details Fitch's approach to rating U.S. public power systems. More specifically, the report elaborates on five key areas of operational and financial importance to the credit quality of municipal and cooperative power entities. These areas are governance and management strategy; assets and operations; cost structure; financial performance and legal provisions; and customer profile and service area.

Consistent Rating Factors: These key elements of Fitch's public power rating criteria remain largely consistent with its prior criteria reports. However, the weighting of individual credit factors can change as the industry evolves, particularly in response to new regulatory initiatives or as new market dynamics emerge. In addition, not all rating factors outlined in this report apply to each individual rating or rating action. Each specific rating action commentary or rating report discusses those factors most relevant to the individual rating decisions. This report replaces the previous report, "U.S. Public Power Rating Criteria," dated March 28, 2011.

Higher Ratings: U.S. public power utilities are effectively owned by their customers and operate with a mission to provide essential, reliable, and relatively low-cost electric service. Fitch's average retail system rating for the sector is 'A+', compared with an issuer default rating of 'BBB+' for investor-owned utilities.

Distinguishing Characteristics: Key credit characteristics supporting higher ratings for public power utilities include their self-regulating authority and predominantly residential customer bases. Self-regulating authority allows for the more timely recovery of costs through electric rates, while higher proportions of residential customers provide for more stable energy sales and, in turn, more predictable financial operations.

Governance and Management Strategy

The strength of a utility's senior management and governing body, usually an independent board of directors or elected city council, is a key credit consideration in Fitch's analytical process. Management's experience and ability to design and implement a comprehensive strategic plan is important to an issuer's rating, as is its ability to respond to unforeseen circumstances. A high degree of board or city council understanding of a utility's business strategy and the issues facing the utility is also important.

Achieving Strategic Goals

Fitch typically reviews prior strategic and financial plans versus actual outcomes in an assessment of management and governance effectiveness. A stronger management team consistently meets or exceeds financial projections, and copes well with unexpected developments. Moreover, Fitch takes into account the reasonableness of key financial and operational planning assumptions in its assessment.

Major Components of a Comprehensive Strategic Plan

Forecasts of customer and load growth.
New generation, transmission, or distribution requirements.
Plans to meet capital needs, including financing schedules.
Plans for rate increases.
Financial projections, including stress scenarios.
Risk-management procedures and analysis.

Comprehensive Resource Planning

A utility's power resource strategy encompasses the long-term decisions aimed at providing reliable, high-quality service at the lowest cost to its customers. Fitch analyzes the long-term strategies set forth in a utility's integrated resource plan to determine if they are adequate and reasonable. Fitch monitors the implementation of those strategies and a utility's flexibility for responding to changing market conditions.

Fitch also discusses with management the purpose, amount, and structure of planned debt issuances, and any debt-management policies in assessing a utility's capital needs and their effect on its future debt profile and financial performance. Fitch assesses the willingness and ability of an issuer's management and governing body to increase rates to ensure the measured, timely, and adequate recovery of total costs. Fitch also evaluates the likely effect of rate increases on a utility's financial performance relative to its peer group.

Preparing for Uncertainties

The extent of risk management performed by a utility is viewed as a key indicator of management's sophistication. Fitch views favorably a management team that is able to recognize and discuss risks (and mitigating factors) that could affect a system and, in turn, bondholder security. Such risks include participation in the fuel and energy commodity markets; plans for managing a large generation unit or transmission outage; reliance on off-system counterparty credit quality; and the effect of regulatory or legislative changes.

Related Criteria

Criteria for Rating Prepaid Energy Transactions, Aug 15, 2011

Revenue-Supported Rating Criteria, June 20, 2011

Attributes: Governance and Management

Stronger

Management and board of directors with extensive experience.

An objective, engaged board of directors that does not exert political pressure.

Transparency and strong communication between management, the board of directors, and customers.

In the case of wholesale power systems, coordinated efforts among member utility systems and the governing body.

Frequent analysis and updating of financial forecasts and resource management plans.

Well-developed and documented risk-management policies and procedures.

Documented succession planning.

Midrange

Generally stable management team and board of directors with modest turnover.

Comprehensive strategic and resource plans, forecasts of demand, and risk-management policies that generally reflect current economic, system, and political conditions.

Weaker

Lack of experience or frequent turnover of management.

Significant political pressure in the underlying municipality or in the members' service area.

Failure to maintain open communication between the utility and the board of directors, which may reveal itself in unexpected, significant rate increases.

Limited financial forecasting and rate planning.

Lack of adequate risk-management policies and procedures.

Assets and Operations

Fitch analyzes the generation, transmission, and distribution assets of wholesale and retail power systems to determine if a utility's power supply mix and asset operating performance adequately meet demand requirements. Fitch also analyzes how a utility's power supply mix and performance compare to similar systems.

Attributes: Assets and Operations

Stronger

A stable, diverse, and regionally cost-effective power resource mix.

Adequate fuel supply contracts and a well-constructed fuel-hedging strategy.

Sound operating performance that is in line with or better than industry standards.

Adequate reliability and redundancy.

A power supply plan to maintain load balance.

Sufficient transmission access.

Midrange

A power supply mix in line with the region.

Fuel-hedging strategy that strives to minimize fuel price volatility at competitive prices.

Sound asset operations, comparable to industry standards.

Limited unexpected outages that cause resources to perform below industry standards.

Evolving power supply plan that might have an open position.

Weaker

A generation portfolio that is uneconomic or might ultimately pose unusual environmental concerns.

Dependency on a single fuel or generation site.

Below-average reliability levels stemming from frequent outages, high line losses, theft, or customer dissatisfaction.

Excessive dependence on the open market for either spot power purchases or sales of surplus power.

Lack of a comprehensive power supply plan.

Generation Benchmarking

Fitch compares a utility's generation mix to that of industry standards, the regional market in which the utility operates, and other utilities in the rating category. This benchmarking of fuel and other generation risk exposure allows for a comparative analysis of a utility's relative strengths and weaknesses. Fitch considers the following areas in its assessment of generation:

- Fuel mix;
- Plant availability and capacity factors;
- Load factor;
- Heat rate;
- Refueling time, for nuclear plants; and
- Environmental mandates or goals.

Fitch looks through the wholesale provider and performs a similar assessment for distribution systems that purchase power under bilateral contractual agreements from a joint-action agency or cooperative.

New Power Resources

A utility's current and future power resource plan is generally aimed at providing reliable, high-quality service at the lowest cost to its customers. Fitch analyzes the long-term strategies set forth in a utility's integrated resource plan to determine if they are adequate and conservatively developed. Fitch also evaluates the implementation of those strategies and a utility's flexibility in responding to changing market conditions.

Many factors influence a system's demand for future power resources. These include customer or load growth, expiring purchase power contracts, the replacement of older generating units with more efficient ones, or renewable mandates. Fitch considers the following areas in its assessment of a utility's integrated resource plan:

- The type of generation chosen and alternatives considered;
- The size and cost of the unit;
- The effect of the unit on the utility's existing portfolio resource mix (baseload, intermediate, or peaking);
- The availability of transmission and distribution resources; and
- Environmental factors.

Building and owning assets provides many benefits, such as:

- Control of asset operation;
- Limited counterparty risk and collateral-posting (requirements associated with power purchases); and
- Equity associated with owning a long-term asset.

However, there are also benefits to being a power purchaser in periods when market power supply is ample, and electric transmission access is available. Some small- to medium-sized systems can benefit from avoiding large, costly capital programs and operating obligations that come with owned generation.

Fitch does not typically evaluate the merits of owning generation versus purchasing power. On the contrary, Fitch's analysis considers the costs and benefits to individual utilities of both scenarios.

Renewable Resources

Fitch reviews a utility's strategy for developing renewable or alternative power generation to gauge how a utility's generation mix will change, particularly when it must comply with a state renewable portfolio standard. Fitch also evaluates the capital and operational costs of the projects, and how they will ultimately affect customer rates.

Renewable energy projects are expected to have long-term environmental benefits. However, the intermittent nature of their generation and higher operating costs relative to traditional generating resources can pressure a utility's financial operations without adequate cost recovery. The availability and types of these resources and the transmission capability vary by region.

Environmental Considerations

Fitch conducts a review of a utility's compliance with current and proposed environmental standards to fully understand a system's future capital needs and operating expenses. Environmental retrofits can be costly on a capital basis and from an operating perspective, as increased captive consumption often results in lower plant output. The cost to retrofit may be high for older, coal-fired generating facilities, rendering the generating facility uneconomic and subject to retirement. As such, the effect of more restrictive federal and state environmental policies can have significant operating and financial repercussions for a utility.

Fuel-Supply Management

The ability to manage fuel costs is a key credit factor, because fuel is often a utility's largest budgetary expense. Hedging can be critical to the financial stability of, for example, a retail distribution system that purchases a portion of its power in the spot market. As such, Fitch reviews a utility's hedging techniques as part of its risk-management assessment.

The use of financial markets and power derivatives can help mitigate the risk of price volatility or a longer term trend of increasing prices. However, these instruments can leave a utility exposed to a drop in fuel prices, which can render certain hedges uneconomic, or "out of the money." This might require a collateral posting by the utility that, if coupled with declines in operating performance, could tighten liquidity and result in negative credit pressures.

Other factors of the fuel supply that Fitch considers include:

- Diversity of fuel mix;
- Flexibility of fuel agreements;
- Fuel transportation arrangements; and
- Alternative fuels, if primary sources are not available.

The optimal fuel-supply strategy varies by utility. It is driven by the diversity of generating resources, sufficiency of fuel sources, and the ability to mitigate associated risks.

Off-System Sales and Purchases

A power generator's off-system sales to non-native load can reduce existing customers' costs or provide surplus funds for reinvestment in system facilities, depending on market conditions. However, heavy reliance on off-system sales is viewed as a negative credit factor. Such revenues tend to be more volatile, reflecting inherently variable power market prices.

Conversely, spot purchases can increase overall cost efficiency if power generators can purchase power in the open market when the cost is beneficial (the market cost of power is lower than the cost of a system's own generation). However, short-term purchases will also expose issuers to greater cost volatility.

Distribution and Transmission

Fitch views the distribution function largely as a monopoly-type, stable business with limited business risk. Fitch's review of a distribution system includes an assessment of its reliability, as measured by the frequency of outages, line losses, etc., and the extent and timeliness of necessary capital improvements for its traditionally "wires only" infrastructure.

Fitch evaluates the level of historical and planned system investment to determine if customer growth will affect the operations of the existing system relative to a peer group. Fitch also reviews a utility's business strategy regarding its transmission connection with a regional operator or other transmission system that can provide it with reliable access to market power, if needed.

Cost Structure

Fitch analyzes a utility's cost structure and methods of adjusting rates to determine its rate-raising flexibility for the timely funding of financial operations and capital needs. The analysis is conducted "bottom up," by looking at the costs to generate (or purchase) and supply electricity to customers, and "top down," by examining the structure of retail rates charged to different customer classes. A utility with overall rates that are below neighboring systems or systems with similar fuel mixes is generally viewed as having greater flexibility to use rates as a tool for funding.

Local Rate-Setting Authority

Most municipal systems and electric cooperatives are not subject to regulation by state public service commissions. Instead, public power systems typically maintain local authority to adjust rates as needed, which contributes to the timely recovery of costs. This flexibility is viewed as a positive credit factor and a distinguishing factor from comparable investor-owned utilities. It provides management with the ability to raise rates to maintain financial stability, build liquidity, or pay for portions of a capital improvement plan.

Fitch also considers the use of automatic or interim rate adjustments, which further ensure timely cost recovery, in its assessment of a utility's rate structure. Interim adjustments that may be effected by a utility's management team — without the involvement of a governing board — can help ensure the overall stability of financial operations.

The rates of wholesale power suppliers, including joint-action agencies and generation and transmission cooperatives, and their distribution members are compared at the wholesale and retail levels, respectively.

Attributes: Cost Structure

Stronger

Board of directors and city council have the sole authority to set customer or member rates.

Retail/wholesale rates are typically below those of neighboring utilities and frequently more competitive nationally.

Competitive "all-in" production costs.

Use of an automatic monthly fuel or purchased power adjustment surcharge for timely recovery of variable energy and fuel costs.

Timely and measured rate increases in anticipation of multiyear capital spending.

Midrange

Comparable rates to neighboring utilities, and within range of regional averages.

Might utilize a fuel or purchased power surcharge (typically adjusted less frequently than monthly).

Includes financial projections, and a well-documented strategy for servicing new debt for a capital program.

Established transparency, as well as some communication with the rate-setting authorities, to ensure no rate shocks to customers.

Weaker

Outside regulatory approval required for rate increases.

Political pressure that might limit or postpone needed rate increases, which could ultimately affect a utility's financial metrics.

Above-average rates relative to a peer group, which reduces flexibility for managing unforeseen operating or other capital expenses.

Lack of any fuel or purchased power adjustment factor.

Financial Performance and Legal Provisions

The assessment of a utility's financial performance and policies, and the legal provisions underpinning specific debt issuances, are important considerations in Fitch's ratings process. Fitch reviews five years of audited financial statements for an established utility to understand its historical trends and competitive position relative to a peer group. A utility's operating results, liquidity levels, and capital structure are evaluated. Financial projections, including planning assumptions for load growth, rate increases, and expenses, are likewise critical to the rating process. Fitch also examines the financial profiles of a wholesale power provider's members, to the extent that information is available.

Financial Performance

Fitch's analysis of financial metrics focuses principally on three core areas: cash flow, liquidity, and capital structure. No single financial ratio stands apart from the rest. On the contrary, the ratios are examined together, providing a context for a utility's financial position that informs a complete analysis.

Cash Flow

Cash flow indicators, particularly as they pertain to debt service coverage, provide a measure of financial cushion to meet bondholder obligations. Fitch primarily considers two measures of debt service coverage to compare utilities that own, versus purchase, generation. The standard debt service coverage ratio measuring funds available for debt service to total debt service applies to all utilities. An adjusted measure of debt service coverage, primarily for retail systems that own little or no generation, treats a percentage (30%) of purchased power costs as a debt-like obligation. Thirty percent is an approximation based on historical experience for that portion of off-balance sheet obligations that might otherwise be a fixed expense. The ratio provides a more conservative estimate of financial margin.

Wholesale power suppliers generally have lower coverage levels than retail systems, as total wholesale costs are passed through to their members on a monthly basis. Fitch reviews a wholesale system's cost structure, rate adjustment, and billing processes to assess the timeliness of cost recovery, given their lower financial coverage metrics.

Liquidity

Liquidity measures, such as days cash on hand and days liquidity on hand, provide an estimate of an issuer's ability to meet uncertain operating or other capital expenses. Public power entities typically carry less cash on the balance sheet than water and wastewater utilities. As such, days liquidity on hand, reflecting any undrawn bank facilities, is an important measure of financial flexibility.

Certain utilities rely heavily on third-party liquidity providers for bank revolvers or lines of credit, as is typically more common of cooperatives. Fitch assesses the diversity and credit quality of the liquidity providers, the ability to extend and replace such agreements, and the adequacy and terms of the liquidity support when reviewing these utilities.

Key Financial Ratios

Ratio	Calculation	Significance
Cash Flow		
FADS ($)	Operating Revenues–Operating Expenses+Depreciation+Interest Income	Provides available, current cash resources.
Debt Service Coverage (x)	FADS/Total Annual Debt Service	Indicates the margin available to meet current debt service requirements.
Coverage of Full Obligations (x)	(FADS+Fixed Charge–General Fund Transfer)/(Total Annual Debt Service+Fixed Charge)[a]	Indicates the margin available to meet all debt service and other fixed obligations.
Debt/FADS (x)	Total Debt/FADS	Indicates the size of debt compared to the margin available for debt service.
Liquidity		
Days Cash on Hand	Unrestricted Cash and Cash Equivalents/(Operating Expenses–Depreciation)x365	Indicates financial flexibility, specifically cash and cash equivalents, relative to expenses.
Days Liquidity on Hand	(Unrestricted Cash and Cash Equivalents+Available Lines of Credit and Commercial Paper Capacity)/(Operating Expenses-Depreciation)x365	Indicates financial flexibility, including all available sources of cash and liquidity, relative to expenses.
Capital Structure		
Equity/Capitalization (%)	Total Equity/Capitalization	Provides a measure of cost recovery, leverage, and debt capacity.
Debt Service/Cash Operating Expenses (%)	Total Annual Debt Service/(Operating Expenses+Total Annual Debt Service–Depreciation)	Provides an indication of debt burden relative to cash operating expenses.
Debt/Customer ($)	Total Debt/Total Customers	Provides a measure for relative comparison of leverage.
Variable Rate Debt/Total Debt (%)	Variable Rate Debt/Total Debt	Provides context for an issuer's short-term obligations.
Other		
Operating Margin (%)	Operating Margin/Operating Revenues	Provides a measure of operating stability and capacity to manage an increase in debt levels.
Capex/Depreciation and Amortization (%)	Capex/(Depreciation+Amortization)	Indicates whether annual capital spending keeps pace with depreciation.
Free Cash Flow/Capex ($)	(FADS–Total Annual Debt Service–General Fund Transfer)/Capex	Indicates a utility's ability to internally fund capex.
Net Debt/Net Utility Plant (x)	(Total Debt–Reserve Funds)/Net Utility Plant	Provides a measure of leverage relative to the book value of physical assets.
General Fund Transfer/Operating Revenues (%)	(General Fund Transfer+PILOT)/Operating Revenues	Indicates the degree to which a utility supports city or county general fund operations.

[a]Fixed charge – 30% of purchased power expense, which is an approximation of the associated fixed costs. FADS – Funds available for debt service.
PILOT – Payment in lieu of taxes.

A utility's transfer policy can influence its liquidity measures. As such, Fitch reviews transfers to a corresponding municipality's general fund to determine if they are formulaic. Subjective, open-ended transfer policies that allow a local government to affect the liquidity levels of a utility generally increase credit risk. For electric cooperatives, the amount of patronage capital repatriated has similar importance.

Capital Structure

A utility's capital structure, which encompasses the strength of its balance sheet, presents another indication of financial flexibility. More specifically, the equity-to-capitalization ratio measures a utility's ability to grow equity over time.

A rising equity ratio is favorable, as it suggests adequate cost recovery in rates or load growth. A high level of system equity indicates capacity for issuing additional debt to fund future capital needs. Wholesale power providers with equity levels below 10% are likely to be considered financially disadvantaged.

Attributes: Select Financial Metrics (Retail Systems)

Debt Service Coverage (x)	Debt/FADS (x)	Days Cash on Hand	Equity/Capitalization (%)
Stronger			
Coverage of consistently more than 2.0x provides solid cash flow and bondholder protection.	Less than 6x debt to FADS indicates a favorable level of leverage relative to cash flow.	More than 120 days cash on hand indicates solid financial flexibility to meet unforeseen spending needs.	Strong equity levels of more than 40% indicate adequate cost recovery and ample debt capacity for future capital needs.
Midrange			
Many utilities target coverage in the 1.5x–2.0x range.	Ratios in the 6x–9x range indicate a generally balanced level of debt relative to cash flow.	Many utilities target approximately 60–90 days operating cash.	Many utilities maintain 20%–40% equity levels.
Weaker			
Consistently less than 1.5x coverage provides limited cushion for unexpected revenue shortfalls.	Greater than 9x debt without a suitable rationale can indicate a deficient rate structure.	Less than 60 days cash indicates less financial flexibility, but can be adequate if a utility is subject to less cash flow volatility.	Less than 15% and 10% equity is relatively low for retail electric and wholesale systems, respectively.

FADS – Funds available for debt service. Note: The debt and equity ratios above do not reflect off-balance sheet obligations, which apply to retail systems that are participants in joint-action agencies or are part-owners of generation facilities. Fitch reviews adjusted financial ratios to take into account such obligations.

Debt Profile

Fitch's assessment of a utility's debt profile considers the purpose, amount, and structure of its existing debt, and any off-balance sheet obligations such as take-or-pay contracts or interest rate swap agreements. Future financing plans, including the funding of a long-term capital program, and the renewal and replacement of any bank liquidity facilities, are also important considerations.

The amount of hedged or unhedged variable-rate debt an issuer can manage is a function of its operating risk profile; the strength, predictability, and amount of its cash flows; the level of available funds; and its management of interest rate exposure and maturities. Fitch will assess the resiliency of an issuer's financial metrics relative to a peer group when evaluating its ability to manage variable-rate and short-term debt exposure. Higher rated issuers with broader market access are typically better able to take on a greater percentage of variable-rate debt, as compared with lower rated issuers.

Legal Provisions

Aspects of the Bond Indenture

The legal provisions of a bond indenture or resolution provide a framework for the establishment of funds and, ultimately, the repayment of a debt obligation. As such, Fitch analyzes indenture provisions, such as the pledge of revenues, rate covenant, additional bonds test, debt service reserve fund, and flow of funds to determine the relative strength of the security.

Pledge of Revenues

Fitch does not distinguish between a pledge of gross and net revenues for public power systems, as all systems must fully cover annual operating expenses and debt service from total revenues. A weaker revenue pledge may allow for the inclusion of other available funds as revenues. Separately, a mortgage interest provides bondholder support via a lien on physical assets, as is typical of cooperatives.

Rate Covenant

The rate covenant provides a minimum level of protection and ensures that a system reliably covers debt service by a certain margin. Fitch views it as an element of financial cushion. Rate covenants with only a 1.0x (sum sufficient) debt service coverage requirement, or those that allow inclusion of other funds in the calculation of the rate covenant, are typically viewed as being weaker.

Additional Bonds Test

The terms of the additional bonds test often mimic the rate covenant. The strongest tests include both a historical and projected debt service coverage test and limit the period for calculating net revenues to the 12 months immediately preceding the issuance of additional debt.

Debt Service Reserve Fund

The incidence of relying on a debt service reserve fund to pay debt obligations is low, given the limited number of public power entities that Fitch rates below investment grade. However, maintaining additional legally restricted, cash-funded reserves is looked upon favorably, particularly for weaker credits. Fitch evaluates those instances where reserve funds have been funded with a surety from a financial guarantor on a case-by-case basis.

Flow of Funds

The flow of funds is fairly standardized, providing for regular deposits to the debt service fund after the payment of operations and maintenance. As such, the flow of funds has little bearing on the rating, except in the uncommon instances when it deviates from the typical arrangement.

These key bond covenants are important to overall bondholder protection, though the degree to which they influence a rating varies. The legal provisions for a lower rated entity take on greater importance, as they are more likely to be tested.

Attributes: Select Indenture Provisions

Rate Covenant	Additional Bonds Test
Stronger	
Greater than 1.25x coverage of ADS by net revenues alone.	More than 1.25x coverage of MADS from net revenues. Typically, the test includes both a historical and projected revenue period; the test will have to be met over a consecutive number of months.
Midrange	
Coverage of ADS between 1.10x–1.25x by net revenues alone.	Coverage of MADS from net revenues of between 1.10x and 1.25x. May only include a historical or projected net revenue coverage test; may allow inclusion of other available fund balances to meet the test.
Weaker	
Less than 1.10x coverage of ADS by net revenues plus available funds	Less than 1.10x coverage of ADS from net revenues. Typically, a historical or projected test, with a looser interpretation of the revenue period (i.e. 12 consecutive months of the 24 months preceding the issuance of additional bonds).

ADS – Annual debt service. MADS – Maximum annual debt service.

Wholesale Power Contracts

The power sales contracts between a wholesale power supplier and its distribution customers are among the most important factors supporting the credit rating of a wholesale power system (joint-action agency or cooperative). The credit strength of a wholesale provider is intrinsically linked to that of its purchasers. As such, a wholesale power supplier would be unlikely to obtain an investment-grade rating absent these long-term agreements, many of which are court validated to provide assurances that they are enforceable.

In particular, Fitch evaluates the nature of the contractual obligation (take-or-pay, take-and-pay, all requirements, etc.) and the expiration and renewal terms of these contracts relative to the final maturity of an issuer's outstanding bonds. Debt maturities beyond the terms of the agreements are considered a negative rating factor, as issuers could be forced to sell power in the open market on a merchant basis to support debt service.

Take-Or-Pay Contracts

Strengths

Long-term commitment of participants to purchase 100% of project output.

Participants are required to make payments regardless of unit operation; many such contracts have been deemed by the state courts as legally binding to the participants.

Contracts can mitigate price volatility risk (for the power purchaser) inherent in short-term purchase power contracts, as the contracts are often for a fixed price plus a modest escalator.

Step-up requirements can mitigate the default risk of the weakest and smallest participants (e.g. with a 25% step up, a default by 25% of participants [by participation] would be borne by the other participants rather than by bondholders).

Weaknesses

Depending on the transaction's structure, the step-up provision can be insufficient to mitigate a default of the weakest participants.

Take-And-Pay Contracts

Strengths

Long-term commitment of participants to purchase 100% of project output.

The risk of an individual member defaulting is, in effect, borne by membership rather than bondholders in the form of higher average wholesale rates set by the agency (e.g. an unlimited step-up provision when a take-and-pay is coupled with an "all-requirements" power supply contract).

Weaknesses

Members are only obligated to pay for power that is available (able to be generated). Hence, the project would lose member revenues if it were rendered non-operable.

Effects of Litigation

Fitch considers any litigation that might result in financial payments in its review of an issuer's legal framework. Any such payments that materially affect an issuer's balance sheet could result in a negative rating action.

Customer Profile and Service Area

Service area characteristics provide an indication of the stability of a constituency's load, and ultimately its ability to pay electric bills. Stronger electric systems typically serve growing, well-diversified areas. However, the essential nature of electric service and the remedies available to most public power providers (shutoffs and liens) make payment delinquencies in the sector extremely low, regardless of wealth and other economic indicators.

Service Area Considerations

A utility's ability to maintain a sound operating position, despite changing service area characteristics, is an important rating consideration. Some of the factors Fitch considers in its assessment of a service area are shown in the table below.

Key Service Area Metrics

Indicator	Measure	Significance
Economy	U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis employment by sector statistics.	A diversified economy is typically better positioned to absorb cyclical changes than an economy concentrated in a certain sector, providing for greater stability of revenues.
Customer Composition	Breakdown of residential, commercial, and industrial customers provided by the utility or consultant.	A higher percentage of residential energy sales (more than 40%) typically provides for greater financial stability. Residential customers each account for very small percentages of total sales. As such, the loss of any single customer does not disrupt a utility's revenue stream.
Top 10 Customers	Provided by the utility or consultant	As a percentage of the total, 5% of sales to the largest customer or 25% of sales to the 10 largest customers reveals concentration in the revenue base, which can be disruptive if a large customer(s) leaves the area.
Population	U.S. Census figures.	A growing service area typically leads to additional energy sales in support of revenues.
kWh Sales	Provided by the utility or consultant.	The trend of kWh sales provides an indication of the health of the local economy, with steady annual increases demonstrating sound economic and population growth.
Unemployment Rate	U.S. Bureau of Labor Statistics figures.	Provides an indication of the relative health of a local employment base.
Wealth Levels	U.S. Census and U.S. Bureau of Economic Analysis figures.	Provides an indication of the relative ability to pay.

Fitch performs a more detailed analysis of an electric system's customer base to further evaluate the stability of the revenue source when there is industry or customer concentration. The latter is defined as one or a few large customers accounting for a material proportion of revenues (e.g. an individual customer accounting for more than 5%, or the top 10 accounting for more than 25% of the system's operating revenues). Fitch also conducts an analysis of all relevant member information when reviewing joint-action agencies and cooperatives, to the extent that information is available.

Key Rating Considerations

Governance and Management Strategy

- Type of governing body (e.g. utility board, city council, etc.)
- Management's relationship with governing body
- Management's experience and depth of industry knowledge
- Business strategy and planning
- Management's track record at achieving financial and strategic goals
- The relationship among the members, for joint-action agencies and cooperatives

Assets and Operations

- Review of generation mix and comparison to the region
- Historical operating performance of generation facilities
- Relative load balance or shortfall, and plans for meeting additional power needs
- Environmental concerns and compliance
- Fuel supply and hedging contracts
- Off-system power sales/purchases
- Distribution and transmission issues

Cost Structure

- State or federal regulatory oversight
- Rate-raising flexibility and competitiveness
- Process of adjusting rates to ensure timely and adequate cost recovery
- Structure and use of fuel or purchased power adjustment mechanism
- Average total power supply cost relative to a peer group
- Generating plant production costs relative to similar plants in the region
- Average wholesale cost of power for joint-action agencies and cooperatives
- Average retail rates by customer classification and comparison to peers

Financial Performance and Legal Provisions

- Historical five-year analysis of key cash flow, liquidity, and leverage ratios
- Management's financial policies
- Financial projections and reasonableness of key assumptions
- Existing debt characteristics and future financing needs
- Financial analyses of the largest member distribution systems, for joint-action agencies and cooperatives
- Review of indenture provisions and bond security features
- Type, length, and renewal terms of wholesale power contracts
- Any material pending litigation

Customer Profile and Service Area

- Economic and demographic makeup and trends
- Customer composition, including a breakout of kWh sales and revenues
- Customer revenue or business sector concentration
- Service area profiles of member systems, for joint-action agencies and cooperatives

Big Rivers Electric Corporation

Full Rating Report

Ratings

Outstanding Debt

$83,300,000 County of Ohio, KY pollution control revenue bonds Series 2010A	BBB-

Rating Outlook

Stable

Key Utility Statistics

(Fiscal Year Ended 12/31/10)

System Type	Wholesale Electric
NERC Region	MISO
No. of Customers	3
Annual Revenues ($ Mil.)	530.06
Top User (% of Revenues)	53
Primary Fuel Source	Coal
Peak Demand (MW)	1,391
Energy Growth (%)	53.6
Debt Service Coverage (x)	1.32
Days Operating Cash	216.72
Equity/Capitalization (%)	31.85

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Key Rating Drivers

Risk Profile Reshaped: The recent termination of its generating asset lease transaction has reshaped the risks surrounding Big Rivers Electric Corporation, effectively reducing leverage and financial risk in exchange for increased reliance on a concentrated customer base and the wholesale marketplace.

Abundant Low Cost Resources: Big Rivers benefits from abundant low-cost power resources and an average wholesale system rate ($36.35/MWh in 2010, net of credits) that is regionally competitive and among the lowest in the nation. Member retail rates are similarly low and competitive.

Heavy Customer Concentration: Big Rivers has resumed electric service, through its largest member Kenergy Corp., to two local aluminum smelters (a combined demand of 850 MW at a 98% load factor), which account for approximately 53% of total energy sales.

Subject to Rate Regulation: The electric rates charged by Big Rivers and its members are regulated by the Kentucky Public Service Commission (KPSC), which limits the cooperative's financial flexibility and may delay the timing or amount of necessary rate increases.

Acceptable Financial Metrics: Acceptable financial metrics for the rating category include fiscal 2010 debt service coverage (DSC) of 1.32x and total debt/funds available for debt service (FADS) of 12.2x. Including revenues from member rate stability (MRS) reserves, metrics improve to 1.78x (DSC) and 9.0x (debt/FADS).

Forecasted Stability: FADS and times interest earned ratios (TIER) are expected to remain relatively stable going forward, aided by the continued use of MRS reserves and a TIER adjustment mechanism included in the cooperative's power sale agreements with the smelters.

What Could Trigger a Rating Action

Restrictive Rate Regulation: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

Onerous Environmental Regulation: Environmental regulations proposed by the U.S. Environmental Protection Agency (EPA), if adopted, could result in a much higher cost of compliance for the cooperative versus other utilities with newer, more diversified resources.

Deteriorating Operating Conditions: Declining non-smelter member sales, weak surplus energy sales, or constrained smelter operations that reduce financial margins and liquidity could also put downward pressure on the rating or Outlook.

Credit Profile

Rating History

Rating	Action	Outlook/ Watch	Date
BBB-	Affirmed	Stable	8/12/11
BBB-	Assigned	Stable	7/2/09

Big Rivers is a generation and transmission cooperative based in Henderson, Kentucky. Big Rivers supplies wholesale electric and transmission from its total capacity of 1,829 MW to three distribution cooperatives – Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation and Kenergy Corporation. Combined, these members provide service to approximately 112,500 retail customers that are located in 22 western Kentucky counties.

Each of the three Big Rivers members purchases power pursuant to a wholesale power contract (WPC) that extends through December 31, 2043, well beyond the final maturity date of the cooperative's outstanding debt. Under the terms of the WPC's the members are required to purchase all of the power required to meet the needs of their systems, except Kenergy's requirements for the smelters (See Smelter Agreements).

Bankruptcy

In September 1996, Big Rivers filed for voluntary Chapter 11 relief under the U.S. Bankruptcy code, generally due to an inability to sell power produced from its excess capacity at prices sufficient to cover its above-market costs. After emerging from bankruptcy in 1998 and in accordance with its plan of reorganization, Big Rivers entered into a 25-year lease of all of its generating assets with Western Kentucky Energy Corp. (WKEC), at the time a wholly owned subsidiary of LG&E Energy Corp. (LG&E) The transaction essentially transferred the operational responsibilities of the assets and related risks in exchange for annual lease payments, and a fixed price purchase power contract with LG&E Energy Marketing, Inc. (LEM), another subsidiary of LG&E.

The Unwind Transaction

In 2009, the lease with WFEC was effectively "unwound", resulting in Big Rivers receiving cash and consideration with a value of $865 million, and gaining back control of its generation fleet. Big Rivers also resumed electric service to two local aluminum smelters that have historically dominated the service area's electric demand and were supplied by LEM following the reorganization. Going forward, the smelters will again represent a significant portion of the cooperative's electric demand

The consideration received in connection with the unwind allowed Big Rivers to pay down approximately $140 million of debt, establish $253 million of rate stabilization reserves and improve system equity from (19%) to approximately 30%.

Management, Governance and Business Strategy

The Board of Big Rivers consists of six members, comprised of two from each of the member cooperatives. The members serve three-year terms and two are elected each year. There are full board meetings once a month, often supplemented with more informal meetings when necessary. There are no specific committees given the small size of the board. According to Big Rivers, management has an excellent working relationship with the board.

Since completing the unwind transaction, Big Rivers has expanded its senior management team to include several new positions including a Chief Production Officer and Vice President of Risk Management to oversee the expanded responsibilities related to power supply. The cooperative's employee base has also grown to approximately 630 reflecting the production personnel acquired with the generating facilities, many of whom were employed by Big Rivers prior to the bankruptcy.

Overall, Fitch believes that the cooperative's post-unwind transition has progressed very well, due in large part to the many years of preparation undertaken by the Big Rivers management team in anticipation of the transaction. Although E.ON provided some initial support to the post-unwind transition, particularly in the areas of information technology and generation dispatch, Big Rivers assumed full operating responsibilities earlier this year without any disruption. Generation dispatch is currently managed by ACES Power Marketing, which provides portfolio risk management services for aggregate energy load and generation of 44,000 MW and 35,000 MW, respectively

Regulation

Big Rivers and its members are subject to oversight by the KPSC, which constrains the board's rate setting ability, compared to other public power and cooperative utilities that are self-regulated. The KPSC is an independent agency that regulates gas, water, sewer, electric and telecommunications utilities in Kentucky. Although Fitch views external rate regulation as limiting to financial flexibility, it should be noted that the KPSC has been responsive to the needs of Big Rivers in recent years, particularly during the unwind approval process. The recent inclusion of rate tariffs designed to allow the monthly recovery of fluctuations in the cost of fuel and purchased power, as well as costs related to environmental compliance, are credit positive and are expected to lower the frequency of formal rate cases.

Big Rivers has also adopted a very proactive approach to rate setting (see Rates and Cost Structure), which is designed to anticipate the need for rate relief well in advance of the timetable required by the KPSC, and should therefore increase the likelihood of timely rate relief. The KPSC will also allow utilities to file for emergency or interim rate relief that can be implemented within 30 days if necessary, under certain circumstances. Corresponding retail rate increase requests are typically coordinated with those of Big Rivers, but members must file separately with the KPSC.

Member Profile and Service Area

Big Rivers serves three electric cooperatives, which together provide electric service to approximately 112,500 customers. While the operating profiles of Jackson Purchase and Meade are largely typical of rural electric cooperatives (including a heavy concentration of residential customer and electric sales), Kenergy's profile is somewhat unique in that its electric load is dominated by two aluminum smelters – one owned by Alcan Primary Products Corporation located in Sebree, KY and another owned by Century Aluminum of Kentucky General Partnership in Hawesville, KY. Together the smelters accounted for 87.7% and 80.0% of the distribution cooperative's total energy sales and revenue, respectively, in 2010. By comparison, Jackson Purchase's entire large industrial load accounted for only 7.1% and 5.5% of energy sales and revenue. An overview of the three members is provided below.

Overview of the Big Rivers Members

	Jackson	Kennergy	Meade
No. of Consumers	29,152	54,991	28,267
Total MWh Sales	683,481	9,318,498	479,367
Total Revenues ($)	45,400	399,473	33,648
No. of Residential Consumers	26,053	45,201	26,213
MWh - % Residential	64.6%	8.7%	78.2%
Revenues - % Residential	68.8%	14.3%	77.8%
No. of Small Commercial/Industrial Consumers	3,080	9,680	2,048
MWh - % Small Commercial	28.1%	3.6%	21.5%
Revenues - % Small Commercial	25.5%	5.6%	22.0%
No. of Large Commercial/Industrial Consumers	7	34	0
MWh - % Large Commercial	7.1%	87.7%	0.0%
Revenues - % Large Commercial	5.5%	80.0%	0.0%

Source: Big Rivers.

The Aluminum Smelters

Aluminum smelting is energy intensive, with power costs accounting for approximately 33% of a smelter's production costs. Access to Big River's low-cost power has therefore been a positive for the smelters, as both operations are adjacent to the Big Rivers generating facilities. The aluminum smelters have been fixtures in the Big Rivers service territory since the 1970's and remain the dominant employers in western Kentucky with 1,375 employees in total. A brief discussion of each facility and its owner is provided below.

- Alcan is owned by Rio Tinto (rated 'A-', Stable Outlook by Fitch), an international mining group, and its Kentucky facility is the company's only U.S. aluminum smelter. Alcan has been operating at that facility since 1973. The company produces 186,000 metric tons of primary aluminum annually from its three potlines. The base contract demand under its agreement with Big Rivers is 368 MW, which results in annual energy consumption projected at 3.1 terra-watt hours (TWh), assuming 24/7 operations and a 98% load factor.
- Century Aluminum Company, the general partnership's parent, is a public company that owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia and Iceland. Operations at the facility in Hawesville began in 1970, and it currently produces 244,000 metric tons of primary aluminum annually, from five potlines. The Century smelter's base contract demand is 482 MW, with projected annual consumption of 4.2 TWh.

Production at the smelting facilities has historically been relatively steady, although production at the Century facility was curtailed from five potlines to four during 2009-2010 in the wake of declining aluminum prices. As a result, Century's energy requirements fell from 4.1 TWh to 3.3-3.4 TWh. The fifth potline was recently returned to full utilization and energy requirements have increased through 2011.

The Smelter Agreements

In July 2009, as part of the unwind transaction, Big Rivers and Kenergy began supplying the sizable load requirements of the smelters, which had previously been the responsibility of LEM. Under the terms of various agreements, Big Rivers has agreed to supply energy to Kenergy, for resale to the smelters through the end of 2023 on a take-or pay basis, subject to certain termination conditions.

The smelter agreements are designed to provide all of their aggregate energy requirements, including: i) base monthly energy (850 MW hourly); ii) supplemental energy (10 MW hourly of interruptible energy to each smelter); and iii) back-up energy (imbalance energy for Kenergy made available to the smelters). Surplus capacity is generally marketed off-system by Big Rivers for the ultimate benefit of the smelters.

Charges under the smelter agreements are designed to provide a slight premium (25 cents per MWh) over the rates charged to Kenergy's other large industrial customers, and incorporate the cooperative's standard recovery clauses for fuel, environmental compliance expenditures and purchased power. In addition, the smelter agreements include certain provisions, which allow for adjustments in the amounts paid by the smelters to enable Big Rivers to achieve a TIER of 1.24x for each fiscal year. During years in which the cooperative's ratio falls below the 1.24x threshold, additional payments are required by the smelters, subject to limitations. Conversely, if the cooperative's TIER exceeds 1.24x during any fiscal year, amounts contributing to the excess coverage may be rebated to the members, with a pro rata portion allocated to the smelters.

Fitch views the smelter agreements as supportive to credit quality, but also notes that the support is somewhat limited, given the ability of the smelters to terminate the agreements upon one-year notice. Some additional comfort is derived from the conditional nature of the termination provision, which would also require that a smelter cease all smelting operations within the Kenergy service area in order to terminate the agreement, but the ability to rely on contract revenues over the long-term is still limited.

Big Rivers Demand and Energy Sales

(MWhs)

	2010	2009	2008	2007
Member Peak Demand (MW)	657	668	614	654
Total Peak Demand (MW)	1,391	1,308	614	654
Electric Sales — Members	3,411,558	3,159,032	3,312,709	3,327,805
Growth (%)	7.99%	-4.64%	-0.45%	4.38%
Electric Sales — Other	2,209,431	1,746,438	1,844,677	2,835,789
Growth (%)	26.51%	-5.33%	-34.95%	37.51%
Electric Sales — Smelter Contracts	6,348,431	2,885,491	0	0
Growth (%)	120.01%	NM	-	-
Total Electric Sales	**11,969,420**	**7,790,961**	**5,157,386**	**6,163,594**
Growth (%)	53.63%	51.06%	-16.33%	17.39%

Source: Big Rivers.

As illustrated in the table above, member energy demand has remained relatively stable since 2007 following a decline in 2009, due to unfavorable weather and economic weakness, and a subsequent rebound in 2010. Member sales, however, have become increasingly dominated by off-system sales of excess generating capacity, as well as sales to the smelters following the unwind. In 2010, member sales accounted for only 28.5% of total energy sales, reflecting a full year of sales under the smelter agreements. Going forward, Big Rivers expects member load growth of approximately 1.4% per annum and declining market sales, as capacity is used to meet growing member demand. However, member sales are not expected to exceed 31% of total energy sales through 2019.

Assets and Operations

The Big Rivers resource portfolio and power supply is dominated by coal-fired generation, both owned and leased. Although coal-fired capacity accounts for 87% of the cooperative's resource capacity, coal-fired generation accounted for approximately 97% of total power supply in 2010. Purchases from the cooperative's Southeastern Power Administration (SEPA) allocation supplied most of the remaining power supply. The current portfolio of assets and related capacity comfortably exceeds the forecasted peak demand of the membership, including the massive smelter demand, and should remain adequate through the load forecast period (2025). As such, no additional resources are contemplated at this time. The cooperative's current resources are summarized below.

Big Rivers Generating Resources

Owned Generation	Fuel Type	Capacity (MW)	Commercial Operation
Kenneth Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/Gas	65	1966
Combustion Turbine	Oil/Gas	65	1979
D.B. Wilson			
Unit 1	Coal	417	1986
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
(City of Henderson Capacity Allocation)		(105)	
Total Owned/Leased Generation		1,651	
Purchased Power			
SEPA Allocation		178	
Total Capacity		**1,829**	

Source: Big Rivers

Despite the changes in ownership and operating responsibility following the unwind, the Big Rivers plants have continued to perform well when compared to similarly sized and equipped units. For the period 2007-2010, six of the eight units reported equivalent availability factors (EAF) in the top quartile. The EAF for the entire system in 2010 was a record 93.7%

Environmental Compliance

Big Rivers reports that all of its units are in compliance with current environmental standards. Currently, eight of the cooperative's nine coal units are equipped with flue gas desulphurization systems (FGDs) to control SO2, and three of the units are equipped with selective catalytic reduction systems (SCRs) to control NOx emissions.

Going forward, however, the cooperative could face greater than average challenges with respect to environmental regulations proposed by the EPA given its near full reliance on coal-fired capacity and generation, as well as the characteristics of its fleet. Big Rivers estimates that full compliance with the regulations could require expenditures of approximately $785 million by 2015 and increase wholesale rates by 39% and member retail rates by 20%. The cooperative has acknowledged that it may seek to mothball certain units or explore fuel conversion to natural gas as an alternative, given the advanced age of certain generating units and their relatively small size. Any shortfall in capacity necessary to serve its load, including that of the smelters, would likely be purchased initially until a longer-term strategy was adopted.

There is no renewable portfolio standard at this time in the state of Kentucky.

Transmission

Big Rivers is nearing the completion of a significant transmission expansion project that was initiated in concert with the unwind transaction. The $20 million dual phase project is designed to increase the cooperative's capability to export power off-system from 912 MW to approximately 1380 MW – a transfer capability large enough to export excess generation including the peak demand of both smelters. Phase I, which included a 345 kV tie with Kentucky Utilities Company, providing eastern path access to the Southwest Power Pool, was completed in April 2008. More recently, Big Rivers has been completing the phase two expansion projects. The final project, construction of a 13-mile transmission line between the cooperative's D.B. Wilson generating facility and the Tennessee Valley Authority transmission system, is expected to be completed by year-end 2011.

Fitch views the cooperative's expanded export capability favorably, particularly given the prospect of significant excess capacity and reliance on off-system sales if the smelters were to discontinue operations. While the completion of the projects does not ensure the sale of excess capacity, it certainly removes the physical constraints.

Coal Supply

The Big Rivers generating units are located in the heart of the western Kentucky portion of Illinois basin coal fields. As such, half of its coal supply is delivered by truck and half by barge, significantly reducing transportation costs and ultimate production costs. Big Rivers also assumed all of the WKEC coal supply contracts, many of which were favorably priced and have lowered the cost of production further.

Capital Resource and Expenditure Plan

The Big Rivers' capital plan for 2011-2019 totals $460.7 million and will largely be financed with internally generated funds. Save for the transmission expenditures noted above, nearly all of the remaining expenditures will be related to modest improvements at the cooperative's generating units. The current capital plan does not incorporate any major expenditures for additional environmental compliance.

Rates and Cost Structure

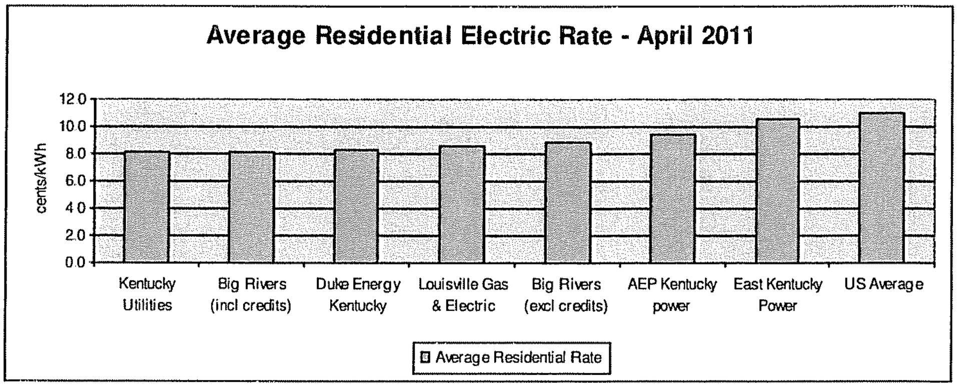
Pursuant to the terms of the WPCs, as well as the indenture, the Big Rivers board is required to review its wholesale rate at least annually and to seek revisions as necessary to ensure covenant compliance. However, as noted earlier, any change in rates charged by Big Rivers is subject to the approval of the KPSC.

A number of factors mitigate the risks related to rate regulation including Big Rivers' proactive policies that dictate annual reviews of the cooperative's annual budget and financial forecast. Given the anticipated time frame for KPSC approval and implementation of rate increases (approximately 7 months), Big Rivers seeks to anticipate the need for rate relief well in advance of any projected revenue shortfall.

Also improving the timeliness of rate recovery has been the rate structure flexibility approved by the KPSC as part of the unwind. Most notably, the KPSC has implemented a fuel adjustment clause, which allows Big Rivers to track changes in fuel costs and to adjust rates accordingly on a monthly basis without further approval. In addition, the KPSC has also implemented an environmental surcharge to recover costs related to programs limiting the emissions of coal-fired generation.

Further mitigating regulatory risk is the very competitive cost structure exhibited by Big Rivers and the resulting wholesale and retail rates that are among the lowest in the nation. Although the competitiveness of the cooperative's wholesale and member retail rates are currently subsidized as a result of the MRS credit, charges excluding the credit are still relatively attractive. In 2010, Big Rivers reported a non-smelter member wholesale rate of $36.35/MWh. Excluding the MRS credit, the rate was $44.26/MWh, comfortably below the average member revenue per MWh for cooperatives nationwide.

Similarly, member retail rates remain equally competitive with the region's other power suppliers, and nationwide, largely due to low power costs. In 2010, retail rates for the smelters, and Kenergy's other large industrial customers, averaged 4.4 cents/kWh, well below the Kentucky state average of 6.0 cents/kWh. Residential rates across the membership are also solidly in-line with neighboring utilities as shown below.



On March 1, 2011, Big Rivers filed for a general rate increase with the KPSC. Discovery, testimony and public hearings were completed during July 2011, and a final order is expected from the KPSC in August, with new rates effective Sept. 1, 2011. In addition to the requested increase (6.85%), the filing also seeks to redistribute certain costs across the various customer classes. Under the terms of the KPSC order approving the unwind, Big Rivers was required to file a rate case within three years of the closing. However in keeping with the policies noted earlier and in response to lower than anticipated off-system revenues, Big Rivers is filing for a rate increase sooner than expected.

The cooperative's current financial forecast incorporates somewhat modest base rate increases, but actual wholesale rates are projected to increase significantly more over time due to a forecasted increase in coal costs and the depletion of the MRS reserves. While the resulting 2019 rates for the smelters and non-smelter members are still expected to regionally competitive, the higher cost of power to be borne by members may introduce some economic strain. Furthermore, the cooperative's current forecast does not include the potential cost impact of further environmental compliance, which would most likely introduce even further strain.

Managing its power supply operations and the ultimate cost of its wholesale power in the wake of escalating costs, diminishing reserves and potentially burdensome environmental regulations will be the single greatest challenge for Big Rivers and the most important factor in the cooperative's future creditworthiness.

Financial Position

The significant changes in the operating profile of Big Rivers in recent years, particularly the impact of the unwind, make the comparison of historical financial metrics difficult. Therefore Fitch's assessment of Big Rivers' financial position is largely based on fiscal 2010 performance against budget (the first full year of post-unwind operations) and the cooperative's projected performance under both base case and stressed scenarios.

Financial performance for fiscal 2010 was relatively solid and virtually on budget. Operating margins for the year were slightly lower than forecasted ($51.3 million vs. $54.6 million) as weaker wholesale prices for power were nearly offset by increased, but more efficient, generation. Net margins for the year were almost exactly on budget ($7.0 million vs. $7.1 million). Actual figures reported by Big Rivers for TIER (1.14x), DSC (1.47x) and equity/capitalization (32%) were also solidly in-line with forecasted performance.

Fitch-calculated ratios for DSC (1.32x) and total debt/FADS (12.2x) were commensurate with the current rating and do not reflect the inclusion of withdrawals from the MRS reserve. Including those revenues, the metrics improve to 1.78x and 9.0x, respectively. Metrics for cash on hand (37 days, excluding the MRS reserves) and total liquidity on hand (109 days) were somewhat low for the cooperative's operating profile.

Fitch has reviewed Big River's financial forecast and believes the near-term targets are achievable and based on reasonable assumptions. Overall, maintenance of a TIER in excess of 1.0x, coupled with the absence of significant capital expenditures and the anticipated refunding of maturing debt, should allow the cooperative to gradually improve its liquidity and equity ratios to levels commensurate for the current rating.

Fitch has also reviewed Big Rivers' sensitivity analysis which assumes the loss of both smelters at the end of 2012, and the sale of excess capacity at base case wholesale price projections. Based on the expectation that the market-based sales can be executed, maintaining coverage and cash levels consistent with the cooperative's goals would require average base rates that are approximately 15% higher than the base case projections for the period 2013-2017. An increase of this magnitude is not unreasonable, but would likely strain the members and drawn scrutiny from the KPSC. The current rating adequately reflects these risks.

Debt

At Dec. 31, 2010, Big Rivers reported total long-term debt of $817.0 million, the largest portion of which is the RUS Series A Note ($558.7 million), which has a final maturity of 2021 but requires payments of $60 million in 2012 and $200 million in 2016 as negotiated with the RUS. The cooperative's remaining long-term debt includes a second RUS Note maturing in 2023 (Series B, $116.2 million) and two series of County of Ohio, Kentucky tax-exempt pollution control bonds – series 1983 and series 2010 A, totaling $58.8 and $83.3 million respectively.

The series 2010 A bonds were remarketed as fixed rate bonds with a final maturity of July 2031 in June 2010. The series 1983 are currently held as bank bonds by the liquidity provider (Dexia Credit), bear interest at a variable rate and mature in June 2013. As with the scheduled 2012 and 2016 RUS payments, Big Rivers expects to refinance the series 1983 maturity, introducing a moderate degree of refinancing risk and reinforcing the importance of continued access to the capital markets. Fitch believes this risk is manageable.

Liquidity

Big Rivers maintains lines of credit totaling $100 million with CoBank, ACB ($50 million) and National Rural Utilities Cooperative Finance Corporation ($50 million), which provide additional liquidity for operations. The current lines of credit expire in 2012 and 2014, respectively, and are expected to be renewed upon expiration.

Member Cooperatives

The consolidated financial profile of the Big Rivers membership has improved marginally in recent years and is supportive of the cooperative's rating. For the year ended Dec. 31, 2010, the members reported consolidated operating income before depreciation, interest and taxes of $37.3 million on total revenues of $482.2 million, and an aggregate ratio for debt service coverage of 1.84x, as calculated by Big Rivers. The improved performance is due, in part, to the approval of rate increases at both Jackson Purchase and Kenergy. At year-end 2010, the members reported total net worth of $131 million and an aggregate ratio of equity to capitalization of 35.9%. A summary of aggregate metrics for 2008–2010 is provided below.

Big Rivers Member Aggregate Financial Metrics

($ Mil.)

Financial Metric	2008	2009	2010
Operating revenues	434.0	422.8	482.2
Operating income before depreciation, interest and taxes	28.5	30.8	37.3
DSC (x)	1.46	1.52	1.84
TIER	1.37	1.44	2.11
Net Debt	220.1	236.7	233.9
Total Margins plus Equities	111.9	117.9	131.0
Equity/Capitalization (%)	33.7	33.2	35.9

Source: Big Rivers

Financial Summary -- Big Rivers Electric Cooperative

($000s, Fiscal Years Ended Dec. 31)

	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	2.93	2.64	1.24	3.52	1.78
Adjusted Debt Service Coverage with General Fund Transfer	2.93	2.64	1.24	3.52	1.78
Coverage of Full Obligations	2.01	1.87	1.19	2.88	1.49
Liquidity					
Days Cash On Hand	257	275	98	78	37
Days Liquidity On Hand	297	302	130	201	109
Leverage					
Debt / Funds Available for Debt Service (x)	7.6	7.0	7.3	2.3	9.0
Equity / Capitalization (%)	-26.0	-19.6	-17.5	30.9	31.9
Equity / Adjusted Capitalization (%)	-18.4	-13.4	-13.3	25.2	26.6
Net Debt / Net Utility Plant (x)	1.04	1.00	1.10	0.73	0.72
Other (%)					
Operating Margin	34.2	29.7	34.6	14.9	9.7
General Fund Transfer / Total Revenue	0.0	0.0	0.0	0.0	0.0
Capex / Depreciation	39.3	55.2	66.3	157.4	113.4
Income Statement					
Total Operating Revenues	258,588	329,870	273,181	373,360	527,324
Total Operating Expenses	170,260	231,836	178,542	317,668	476,072
Operating Income	88,328	98,034	94,639	55,692	51,252
Adjustment to Operating Income for Debt Service Coverage	50,176	53,963	47,075	37,951	40,384
Funds Available for Debt Service	138,504	151,997	141,714	362,180	91,636
Total Annual Debt Service	47,277	57,559	114,211	102,849	51,453
Balance Sheet					
Unrestricted Funds	96,143	148,914	38,903	60,290	44,780
Restricted Funds	186,690	192,932	-	243,225	217,562
Total Debt	1,053,034	1,061,737	1,039,120	848,552	826,996
Equity and/or Retained Earnings	(217,371)	(174,137)	(154,602)	379,392	386,575

Miscellaneous Rating Agency Reports

Case No. 2012-00063
Attachment for Response to Item AG 1-33
Witness: Mark A. Hite

FitchRatings

One State Street Plaza ... New York, NY ...

RECEIVED JUN 1 2010

May 18, 2010

Mr. C. William Blackburn
VP Financial Services & CFO
Big Rivers Electric Corporation
201 Third Street
P. O. Box 24
Henderson, KY 42419

Dear Mr. Blackburn:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,

Lina Santoro

Lina Santoro
Senior Director
Public Power

LS/ka

Enc. Notice of Rating Action
(Doc ID. 144031)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Ohio County (KY) (Big Rivers Electric Corp Project) pollution control rfdg rev bonds ser 2010A	Long Term	New Rating	BBB-	RO:Sta	12-May-2010	

Key. RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

STANDARD &POOR'S Global Credit Portal RatingsDirect

Research

Big Rivers Electric Corp., Kentucky Ohio County; Rural Electric Coop

18-May-2010

Credit Profile	Current Ratings	
US$83.3 mil poll ctrl rfdg rev bnds (Big Rivers Elec Corp Proj) ser 2010A due 07/15/2031		
Long Term Rating	BBB- Stable	New
ICR		
Long Term Rating	BBB- Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'BBB-' issuer credit rating to **Big Rivers Electric Corp.** (BREC) and its 'BBB-' long-term rating to **Ohio County**, Ky 's $83 3 million pollution control refunding revenue bonds series 2010A (Big Rivers Electric Corporation Project) The outlook is stable

Ohio County is selling the bonds for the benefit of BREC, which plans to use bond proceeds to refund auction rate securities that represent a portion of its $848 million of debt obligations We understand that the financing structure obligates BREC to unconditionally pay the county's bonds' debt service and issue a note to the county providing it with a security interest in BREC's assets under its mortgage indenture The Ohio County bonds' security interest will be on par with the utility's senior-secured debt.

BREC and Ohio County might decide to sell the bonds with a guarantee from National Rural Utilities Cooperative Finance Corp (A/Negative/A-1) If the bonds carry such a guarantee, we will review the guarantee and the rating on the bonds to reflect any benefits that may follow

The ratings reflect our view of the following credit weaknesses.

- We believe that BREC's extreme level of customer concentration and its leading customers' credit profiles represent meaningful credit exposures The cooperative relies on two customers for about 68% of energy sales to members and 62% of total energy sales These two customers are aluminum smelters with operations that are vulnerable to economic cycles
- In our opinion the take-or-pay features of the retail power sales contracts between BREC distribution cooperative Kenergy Corp., and the smelters are weak because the smelters can terminate their BREC obligations on one-year's notice
- The cooperative and its member distribution cooperatives are subject to state rate regulation that distinguishes BREC from many other cooperatives that have autonomous ratemaking authority Rate regulation could potentially expose the utilities' financial performance to delayed rate relief or cost disallowances particularly if BREC needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers
- The cooperative relies on sales of surplus energy in uncertain wholesale markets to augment its revenue stream and support its financial obligations

Case No. 2011-00036
Attachment to Item KIUC-92
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- Although BREC plans to add transmission capacity to increase physical access to wholesale markets the projects are behind schedule Moreover, we believe the utility lacks the certainty of firm contractual transmission arrangements, which could frustrate the surplus power sales BREC would need to make if the smelters meaningfully reduce operations or close.
- Nearly one-third of BREC's debt either does not amortize before maturity or has limited amortization which skews debt service coverage ratios. Using bullet maturities can inflate debt service coverage compared with cooperatives that use amortizing debt exclusively. Bullet maturities could also present refinancing risk.
- In July 2009, BREC regained operational control over generation assets it had not operated for more than a decade. The absence of a full fiscal year of generation operations creates uncertainties particularly because $538 million of nonrecurring gains from the E.ON transaction unwind in 2009 were critical to that year's sound financial performance.

We believe these strengths temper the exposures:

- BREC reduced debt to $848 million from $1.04 billion using proceeds of the lease unwind transaction and achieved a lower debt balance than the $872 million of debt it projected before the transaction
- It applied a portion of the lease unwind proceeds to building equity.
- BREC projects what we view as sound debt service coverage of 1.5x or greater during five years, but we believe the cooperative needs strong coverage levels as a cushion against losing the smelters or reductions in smelter demand that could impair financial performance
- BREC projects fully funding $222 million of 2010-2013 capital needs from operating cash flow. However, in our opinion, if sales of surplus power are made at depressed power prices or adverse economic conditions reduce smelter loads that create more surplus energy, the utility could need additional debt to support capital spending requirements.
- In our opinion, the long-term wholesale power contracts between BREC and its three member distribution cooperatives provide a measure of revenue stream security
- Members have exclusive rights to sell electricity in defined territories.
- We believe that BREC's members' retail rates are competitive and they could contribute to financial flexibility. However, members' favorable rates depend on the smelters' operating at high load factors that help absorb high fixed costs. Rate levels also benefit from the subsidies that $200 million of rate mitigation reserves provide

Henderson, Ky.-based BREC is a generation and transmission (G&T) cooperative that produces and procures electricity for sale to 3 member distribution cooperatives and their more than 111,000 retail customers. It relies on two aluminum smelters for nearly two-thirds of operating revenues, which erodes revenue stream stability and predictability and distinguishes the utility from most cooperative utilities that generally earn high percentages of revenues from residential customers. Moreover, BREC projects that it needs to sell surplus energy into competitive wholesale markets to support its financial obligations. Although the cooperative projects nonmember revenues will represent about 10% of operating revenues during five years, reductions in the smelters' operations and electricity consumption could lead to greater market reliance. Declines in wholesale market electricity prices due to weak natural gas prices or abundant supplies could erode margins from market sales and place upward pressure on the costs that the utility's nonsmelter customers bear.

Outlook

The stable outlook reflects our expectations that the strong debt service coverage BREC projects could provide a financial cushion to service debt obligations under adverse conditions that could arise from the operational, financial and regulatory challenges the utility faces. We believe management needs to actively oversee these challenges to preserve credit quality

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Customer Concentration Creates Concerns

We believe that BREC's extreme level of customer concentration and it leading customers' credit profiles represent meaningful credit exposures The utility uses its power plants to produce and sell wholesale electricity Its principal customers are its three member distribution cooperatives that resell the electricity to their nearly 110,000 retail customers. BREC is projecting that only two of the 110,000 customers will account for about 60% of its revenues These two, Rio Tinto Alcan (Alcan BBB+/Stable/A-2) and Century Aluminum Co. (B/Negative/--), are aluminum smelters whose operations and financial performance are exposed to extreme commodity price volatility. We believe these companies' economic viability hinges on aluminum prices, and the economy's strength, among other things BREC expects Century's electricity purchases to provide about 36% of its revenues, which meaningfully exposes the cooperative's financial performance to a single speculative-grade customer's cash flows.

If Alcan or Century ceased operations at their Kentucky facilities, BREC would need to sell surplus electricity in competitive wholesale markets in a bid to recover substantial portions of its fixed costs If the smelters reduce their operations, the cooperative will need to sell the resulting surplus energy in the market for the smelters' benefit The several agreements that BREC, its distribution cooperative member, Kenergy, and the smelters signed provide that certain profits from market sales following curtailment inure to the smelters' benefit. The agreements also provide that the smelters must cover the cooperative's losses resulting from market sales following curtailment

Given Century's weak credit quality, its ability to make up shortfalls is questionable. If the smelters terminate operations their BREC obligations end While the cooperative might retain profits from off-system sales in this scenario it will also bear the risk of losses

We believe that selling electricity in wholesale markets to cover debt service presents meaningful credit challenges because wholesale market sales represent speculative and unpredictable revenue streams. Wholesale markets expose utilities to volatile prices, competing market participants, operational uncertainties such as acquiring physical access to transmission capacity, and potentially higher liquidity needs

Retail Power Sales Contracts

We believe that the take-or-pay features of the retail power sales contracts between BREC distribution cooperative, Kenergy, and the smelters are weak

Kenergy is one of BREC's three member distribution cooperatives It resells BREC electricity to the smelters under 14-year power supply contracts. These contracts have take-or-pay elements that require the smelters to pay for specific quantities of energy, irrespective of whether they need it Yet we believe that these contracts' take-or-pay features are weak and do not provide meaningful credit protections For example, the smelters can terminate their contracts without penalties if they close their Kentucky facilities

Financial Performance

We believe BREC's financial performance could suffer if the Kentucky PSC does not provide timely rate relief or disallows costs, particularly if BREC needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers

In our view, if the smelters close their operations and BREC cannot fully recoup the smelters' share of fixed costs through surplus electricity sales in competitive wholesale markets, BREC's nonsmelter retail customers might need to bear substantial additional costs The cooperative will not have control over revenues if it needs to sell electricity in competitive wholesale markets to compensate for eroded smelter activity Moreover, it can only recover shortfalls from the nonsmelter retail customers if it and its distribution cooperative members can obtain rate relief from the Kentucky PSC.

Unlike many other cooperative utilities BREC and its member distribution cooperatives cannot autonomously raise rates

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to respond to increasing costs or to reallocate costs The Kentucky PSC regulates these utilities' wholesale and retail electricity rates. Rate regulation presents credit concerns because rate proceedings can be lengthy and delay cost recovery Moreover, rate-regulated utilities do not have cost recovery guarantees Nevertheless, in recent rate proceedings, the Kentucky PSC provided BREC's distribution cooperatives with rate relief that was closely aligned with the utilities' requests Also, the commission took steps in connection with the lease termination that we view as supporting credit quality, including directing E.ON to fund rate stabilization accounts benefiting the cooperative members' nonsmelter, retail customers

We believe that BREC's 2010 nonsmelter member wholesale rates of $36 per megawatt-hour (MWh) indicate there is capacity for further rate increases as necessary to reallocate costs to the cooperative's nonsmelter customers

Generation Assets Could Pose Problems

We believe that BREC's few, vintage, coal-fired generation assets present operational exposures that can affect financial performance The cooperative sells the electricity it produces at its seven owned coal plants and the two coal plants it operates that are owned by Henderson's Municipal Power and Light utility BREC operates and has contractual rights to nearly 1 800 MW of generation capacity Its and Henderson's power plants range in age from 23 to 40 years. with a weighted average age of 32 years, based on contributions to overall generating capacity.

BREC's wholesale electric rates include automatic fuel and purchased power cost adjustment mechanisms that we believe mitigate some credit concerns surrounding the mature fleet's ability to serve native load customers reliably These true-up mechanisms shift some of the operational risks of operating older units to the smelter and nonsmelter customers by making them responsible for replacement power costs if units are not running

While the fuel adjustment is an automatic, formulaic. monthly adjustment, the purchased power cost adjustment is only automatic for the smelters Before they are eligible for recovery in rates, the PSC must review the power purchase costs BREC incurs on behalf of its nonsmelter customers. All costs recoverable under the adjustment mechanisms are subject to PSC prudence reviews

There is a two-month lag for the fuel adjustment clause between when costs are incurred and when the cooperative recovers the member portion through rates Similarly, the purchase power adjustment for the smelters also entails a two-month cost recovery lag The purchase power adjustment covering the smelters applies to only approximately two-thirds of the costs The remaining one-third of the purchase power adjustment cost is deferred as a regulatory account for recovery in base rates in a general rate case. The utility projects that its next general rate application will be during 2011 and rate adjustments from that case will go into effect in 2012

Some of BREC's plants have high heat rates Its fleet's heat rates range from 10 600 BTU per kilowatt-hour (kWh) to 13,382 BTU per kWh with a weighted average heat rate of 11,100, reflecting the small percentage of the fleet with the highest heat rates We are concerned that portions of the fleet might not dispatch to support market sales that compensate for losses of smelter sales

BREC projects using coal to produce 95% of the electricity it sells, exposing the utility and its customers to potentially higher operating costs as the regulation of carbon and other emissions progresses The plants' heat rates contribute to carbon intensity in the range of 1 1 tons of coal per MWh. Their ages heat rates, and carbon intensity raise questions about their ability to compete against potentially more efficient and less carbon-intensive units in wholesale markets if the smelters reduce or end their cooperative electric purchases. In our view, the extent of carbon regulation will determine the effects of this level of carbon intensity on BREC's production facilities' economics

Because aluminum smelting is a carbon-intensive process, we believe a combination of costly carbon constraints on aluminum production and carbon charges levied on the smelters' electricity purchases could impair their operations and

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heighten the likelihood that BREC's generating assets might have to compete in wholesale markets

Transmission Expansion Plans

Although BREC plans to add transmission capacity for physical access to wholesale markets, we believe it lacks the certainty of firm contractual transmission arrangements that can facilitate surplus power sales if the smelters reduce operations or close.

The Kentucky PSC approved transmission capacity additions that will increase capacity by about 51%, or 468 MW. BREC projects its transmission upgrades will cost a moderate $5.3 million. Yet we believe the cooperative's ability to remarket the smelters' power still presents credit concerns.

BREC's transmission upgrades are behind schedule and until completed, the utility lacks sufficient capacity to market the smelters' power if both sharply reduce or discontinue operations. Even once completed, we believe that the cooperative's lack of firm contractual access rights could frustrate its ability to move power across others' transmission systems, including, the Tennessee Valley Authority (TVA) system. BREC only has contracts for 100 MW of firm transmission capacity across the TVA system. Management views the high cost of securing firm transmission access for a contingent exposure as unwarranted. The utility has physical interconnections with other power markets beyond TVA, such as the Midwest Independent System Operator and the Southwest Power Pool. However, BREC's electricity needs to cross TVA's transmission system to access key markets such as Southern Co. and Entergy Corp. Lack of transmission access due to fully loaded lines during peak periods could frustrate the cooperative's ability to capture the most robust power prices for surplus power it might need to sell if it loses smelter loads

Potentially Lower Debt

BREC projects modest declining debt balances as it funds its 2010-2013 capital needs from operating cash flow. The cooperative projects $222 million of capital spending in that period. It plans to fund these projects with internally generated funds. The principal capital projects will add environmental controls to generation plants and enhance the cooperative's transmission system.

However, in our view, if BREC's makes its market sales of surplus power at depressed power prices or if adverse economic or market conditions reduce smelter loads and create more surplus energy, the utility could face additional debt needs. Also, the Kentucky PSC's wholesale and retail rate adjustments for BREC and its member cooperatives will determine the precise amount of debt that could be needed.

Power Contracts Provide Some Revenue Stability

In our opinion, the long-term wholesale power contracts between BREC and its three member distribution cooperatives provide a measure of revenue stream security

The cooperative and its members extended their wholesale power sales contracts 20 years to 2043 in connection with the E.ON lease unwind transaction. We view this long tenor as contributing to credit quality because we understand that terms of wholesale power contracts between BREC and its members require the cooperative's three members to purchase their electricity needs from BREC. Furthermore, the members have exclusive rights to sell electricity within defined service territories, which shields the cooperative and its members from competition.

BREC's long-term wholesale power contracts also contribute to credit quality because they extend 20 years beyond its debt's final maturity. Debt outstanding matures by 2023, before the contracts with the smelters expire. However, the utility projects that upcoming refinancings will mature as late as 2039, which is within the term of the wholesale power contracts but well beyond the smelter contracts' expiration. Debt that matures after the smelter contracts roll off could lead to heightened wholesale market exposure, which we view as a credit weakness

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Generally, lengthy requirements contracts, such as those of BREC, provide meaningful revenue predictability and credit support However, the cooperative's members' substantial reliance on two industrial loads that are vulnerable to commodity price cycles erodes the contracts' credit support and distinguishes BREC from most other cooperative utilities Rate regulation also dilutes the benefits of the long-term wholesale power contracts since the cooperative, unlike most others, cannot unilaterally impose additional costs on its captive customers, which could frustrate a reallocation of fixed costs if it loses smelter loads. Also. BREC lacks control over prices for market sales it may need to make if the smelters' operations falter. tempering the wholesale power contracts' benefits.

Highly Competitive Rates

We view BREC's members' retail rates as highly competitive, and they could contribute to financial flexibility.

Energy Information Administration data shows that the cooperative's members' retail rates compare very favorably with average rates for the residential, commercial, and industrial sectors in Kentucky Members' 2009 average residential and commercial rates were about 11% below the state's average. Their average industrial rates were about 25% below the state's.

We believe the smelters' high load factors are likely contributors to the favorable rate competitiveness because their high electricity consumption provides a robust platform for spreading fixed costs over many MWhs. Here too, the exposure to the smelters can become a liability if commodity prices or economic conditions compromise the smelters' operations.

Rates also benefit from the $200 million of rate mitigation reserves from the proceeds of the E ON lease unwind transaction The utility plans to deploy an average $24 million of the reserves' balances each year through 2018 to subsidize rate levels. The utility's forecast shows that this will enhance operating revenues by about 5% each year and we believe that there could be meaningful upward rate pressure once the reserves are exhausted

Debt Service Coverage

BREC projects sound debt service coverage, but we believe losing the smelters could impair financial performance The cooperative projects robust coverage of 1 5x or greater during five years. These levels are stronger than those of many other generation and transmission cooperatives. Yet they do not enhance the rating because we believe that BREC needs robust coverage as a financial cushion against the potential fluctuations in its aluminum smelter customers' performance

The cooperative's base case financial forecast assumes stable smelter operations BREC further assumes that competitive wholesale markets could provide opportunities to earn higher revenues and achieve higher debt service coverage because the negotiated smelter rates yield low margins.

While we agree that wholesale markets may at times provide opportunities to reap windfalls, we believe that, on the whole, competitive wholesale market sales can erode financial margins BREC faces considerable risks in wholesale market activity. If it must compete in wholesale markets to sell a meaningful amount of its power plants' capability to recover fixed costs the cooperative, like other merchant generators, will need to find purchasers that can buy sufficient electricity to recoup the smelters' share of fixed costs BREC must also secure enough transmission access to support such sales Transmission constraints during peak periods may frustrate the cooperative's ability to obtain the best prices for its electricity During hours when coal is on the margin, BREC might face depressed market prices The collapse of natural gas prices also places downward pressure on electricity prices

We evaluated a number of stress scenarios with regard to potential financial results. These indicate that the cooperative's financial performance remains vulnerable to depressed market power prices if it loses all or meaningful portions of the smelters' loads To preserve its rating in such scenarios, the utility would likely need regulatory approval for substantially higher rates for its non-smelter customers to shore up financial performance The regulator will play an important role in

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determining credit quality if BREC needs to look to its nonsmelter customers to absorb fixed costs that the smelters previously bore

Related Criteria And Research

USPF Criteria. **Applying Key Rating Factors To U.S. Cooperative Utilities**, Nov 21, 2007

Primary Credit Analyst: David Bodek, New York (1) 212-438-7969, **david_bodek@standardandpoors.com**

Secondary Credit Analyst: Jeffrey Panger, New York (1) 212-438-2076, **jeff_panger@standardandpoors.com**

STANDARD
&POOR'S

130 East Randolph Street
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Chicago, IL 60601
tel 312 233-7001
reference no : 1121421

May 17, 2010

Big Rivers Electric Corporation
201 Third Street
P.O. Box 24
Henderson, KY 42420
Attention: Mr. C. William Blackburn, CMA, Chief Financial Officer

Re: ***Issuer Credit Rating,***
Big Rivers Electric Corporation, Kentucky

Dear Mr. Blackburn:

Pursuant to your request for a Standard & Poor's rating on the above-referenced issuer, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "BBB-". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa1 rating to County of Ohio, Kentucky bonds to be issued on behalf of Big Rivers Electric Corp.

Global Credit Research - 10 May 2010

$83.3 million of securities affected

New York, May 10, 2010 -- Moody's Investors Service assigned a Baa1 senior secured rating to a proposed offering of $83.3 million of County of Ohio, Kentucky (the county) Pollution Control Refunding Revenue Bonds (Big Rivers Electric Corporation Project) to be issued on behalf of Big Rivers Electric Corporation (BREC). The rating outlook for BREC is stable. Proceeds from the issuance of these bonds will be used to refund $83.3 million in aggregate principal amount of PCRBs, Series 2001A (Big Rivers Electric Corporation Project) outstanding, which were previously issued on behalf of BREC by the county. The prior bonds were Periodic Auction Reset Securities that were insured as to the payment of principal and interest when due by Ambac Assurance Corporation. The Baa1 rating for the proposed offering represents the relative standing of the PCRBs as standalone senior secured obligations of BREC, ranking on parity with all of BREC's existing debt under its first mortgage bond indenture dated as of July 1, 2009, as supplemented and amended.

At the same time, Moody's notes that BREC may decide to deliver the bonds with an unconditional senior unsecured guaranty from National Rural Utilities Cooperative Finance Corporation (NRUC: senior unsecured A2; stable outlook). Under this scenario, the NRUC guaranty would result in a rating of A2 for the proposed PCRBs, consistent with NRUC's current senior unsecured debt rating, and BREC's senior secured debt rating of Baa1 would become the underlying rating for the proposed PCRBs.

"The Baa1 senior secured rating for BREC considers the financial benefits of several steps it took to unwind a lease and other transactions with E.ON U.S. LLC and two affiliates (E.ON) 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" said Vice President, Kevin Rose. BREC and E.ON completed the unwinding of the transactions effective July 16, 2009. "Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should continue to generate FFO to interest and debt metrics in support of the Baa1 senior secured rating level, while capital expenditures are largely met with internally generated funds", Rose added.

A significant constraint to BREC's rating is that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters (Century Aluminum Company and Rio Tinto Alcan), 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. BREC's rating is further constrained because its rates are regulated by the Kentucky Public Service Commission, which is atypical for the cooperative sector and can sometimes pose challenges in implementing timely rate increases when needed to recover higher costs of service.

The stable rating outlook for BREC is based on its 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.

Under the potential scenario where NRUC's senior unsecured guaranty forms the basis for the rating of the PCRBs, we note that NRUC's A2 senior unsecured debt rating is based on its high quality asset portfolio; an excellent competitive position that includes an ability to raise margins on member loans; a strong track record in managing credit restructurings; an improved risk management program and a declining exposure to the more volatile telecommunications sector. The rating also takes into account NRUC management's attempts in recent years to reduce the degree of single obligor exposure within the loan portfolio; the company's reliance on capital markets to fund its lending business, continuing high leverage and the challenges associated with managing certain problem loans.

The stable rating outlook for NRUC incorporates our view that modest loan growth among rural electric cooperatives will help maintain strong asset quality within the loan portfolio. To that end, we believe that the telecom portfolio, a source of loan portfolio weakness, will continue to represent less than 10% of the total loan portfolio. The stable outlook factors in NRUC's plans to lower leverage through the offering of member capital securities and through the change in NRUC's patronage retention cycle, and incorporates an expectation that NRUC will maintain sufficient liquidity as well as access to private sources of funding to mitigate the firm's reliance on wholesale funding.

For more information on NRUC, please refer to the Analysis dated December 10, 2009 and the most recent Credit Opinion dated December 9, 2009. Both can be found on moodys.com under the National Rural Utilities Cooperative Finance Corporation heading.

The principal methodology used in rating BREC is U.S. Electric Generation & Transmission Cooperatives, published in December 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action for BREC was July 14, 2009 when Moody's assigned a (P)Baa1 senior secured rating to proposed PCRBs representing a standalone senior secured obligation of BREC.

The principal methodologies used in rating NRUC are U.S. Electric Generation & Transmission Cooperatives, published in December 2009 and Rating Methodology: Analyzing the Credit Risks of Finance Companies, published in October 2000, and both are available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action for NRUC was November 24, 2009 when the ratings were affirmed with a stable rating outlook.

Big Rivers Electric Corporation is an electric generation and transmission cooperative 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 111,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Based in Herndon, Virginia, National Rural Utilities Cooperative Finance Corporation is a private, not for profit cooperative association exclusively serving rural electric, service, and telecommunication utilities. The principal purpose of the company is to provide its members with a source of financing to supplement the loan programs of the Rural Utilities Service of the United States Department of Agriculture.

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MOODY'S
INVESTORS SERVICE

Rating Action: Ohio (County of) KY

Moody's withdraws (P)Baa1 rating of County of Ohio, Kentucky

Approxiately $83.3 million of proposed securities affected

New York, June 01, 2009 -- Moody's Investors Service withdrew the (P)Baa1 senior secured rating previously assigned to a proposed offering of $83.3 million of County of Ohio, Kentucky Pollution Control Revenue Refunding Bonds (Big Rivers Electric Corporation Project), which were to be issued on behalf of Big Rivers Electric Corporation (Big Rivers). The rating withdrawal follows a decision by Century Aluminum of Kentucky, a wholly owned subsidiary of Century Aluminum Company, not to proceed as originally planned with their contractual role in a series of steps to unwind the existing lease agreements between Big Rivers and E.ON U.S. LLC. After closing of the unwind of the lease agreements, Big Rivers had planned to cause the County of Ohio to proceed with the issuance to refund $83.3 million in aggregate principal amount of Pollution Control Refunding Revenue Bonds, Series 2001A (Big Rivers Electric Corporation Project) outstanding, which were previously issued on behalf of Big Rivers by the County of Ohio, Kentucky. The prior bonds were Periodic Auction Reset Securities that were insured as to the payment of principal and interest when due by Ambac Assurance Corporation. The previously proposed offering of bonds were intended to represent standalone senior secured obligations of Big Rivers Electric Corporation, ranking on parity with all of Big Rivers' existing debt under its first mortgage bond indenture. Since the unwind of the lease agreements cannot proceed without the participation of all participants in its current structure, Big Rivers does not currently plan to proceed with the proposed offering.

The principal methodology used in rating Big Rivers Electric Corporation's obligation under the proposed bonds was U.S. Electric Generation & Transmission Cooperatives, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was March 13, 2009 when Moody's assigned a (P)Baa1 senior secured rating and stable outlook for Big Rivers, representing the first time that Moody's had assigned a rating to bonds representing a standalone obligation of Big Rivers.

Big Rivers Electric Corporation is an electric generation and transmission cooperative 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 111,000 residential, commercial, and industrial customers in 22 Western Kentucky counties

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MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations 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 on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Fitch Ratings
KNOW YOUR RISK

FITCH ASSIGNS A RATING OF 'BBB-' TO BIG RIVERS ELECTRIC CORPORATION (KY); OUTLOOK STABLE

Fitch Ratings-New York-19 May 2009: Fitch Ratings assigns a 'BBB-' issuer credit rating to Big Rivers Electric Corporation (Big Rivers). The Rating Outlook is Stable. This is Fitch's initial rating of Big Rivers. A full report is to follow.

Big Rivers, based in Henderson, Kentucky, was formed in 1961 and supplies wholesale electric and transmission to three distribution cooperatives - Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation and Kenergy Corp. Combined these members provide service to approximately 110,000 retail customers that are located in 22 western Kentucky counties. In total, Big River's has total capacity of 1,833 megawatts (MW).

After emerging from bankruptcy in 1998, Big Rivers entered into a 25-year lease of all of its generation with an investor-owned utility (Western Kentucky Energy Corp., now a subsidiary of E.On) in exchange for annual lease payments, and a fixed price purchase power contract with LG&E Energy Marketing (LEM, a subsidiary of E.On). This transaction is now being unwound. The unwind will result in Big Rivers receiving cash and considerations with a value of $817 million from E.On, in addition to gaining back control of its generation fleet. Big Rivers will also have the obligation to serve two local aluminium smelters, which represents a significant portion of the load. This payment will be used to pay down approximately $140 million of debt, provide $253 million of rate stabilization funds (known as the economic reserve, rural economic reserve and transition reserve funds), and help to build system equity to approximately 30%.

The 'BBB-' rating reflects the system's low-cost power resources and competitive retail rates. Substantial cash reserves will provide rate stability over the next few years and the use of ACES Power Marketing will help manage the utility's off-system power sales and use of its expanding transmission access. Based on Big River's base case financial projections, rates are sufficient to provide debt service coverage of at least 1.24 times (x) over the next five years.

Credit risks include customer concentration, lack of fuel diversity with 91% of its power supply coming from older coal-fired resources, and rate regulation by the Kentucky Public Service Commission (PSC). As stated above, Big Rivers will serve two smelters, accounting for about 50% of total sales and 46% of capacity. Based on stress test analysis, assuming the loss of the smelters, Fitch believes that increases in costs to the remaining customers, while material, would not result in uncompetitive rates, and this risk is reflected in the 'BBB-' rating. With limited diversity in the fuel mix (similar to other Kentucky utilities) the utility could be adversely affected by future environmental legislation associated with CO_2. Additionally, Big Rivers is subject to Kentucky Public Service Commission regulations, which is unusual for most public power and many cooperative utilities. This additional oversight could delay the timing or amount of necessary rate adjustments, increasing the importance of maintaining adequate liquidity reserves to maintain financial stability. It should be noted that the PSC has been responsive to Big Rivers' recent requests and Fitch views the relationship as constructive.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct'

STANDARD &POOR'S

RATINGSDIRECT®

May 8, 2009

Standard & Poor's Evaluates Big Rivers Electric Corp.'s Potential Credit Quality After Proposed Lease Termination

Primary Credit Analyst:
David Bodek, New York (1) 212 438-7969; david_bodek@standardandpoors.com

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Standard & Poor's Evaluates Big Rivers Electric Corp.'s Potential Credit Quality After Proposed Lease Termination

In 1998, Big Rivers Electric Corp. (BREC or the company) leased its eight power plants to LG&E Energy Marketing Inc. (LEM) for 25 years and LEM agreed to sell energy to BREC and its customers at specified prices. LEM's successor, E.ON-U.S. LLC, negotiated a buyout arrangement with BREC that will terminate the lease 15 years early because of poor lease economics.

BREC asked Standard & Poor's Ratings Services to evaluate the credit rating implications of implementing the proposed termination scenario through its Rating Evaluation Service. Based on our review of materials that the company furnished and other information, we concluded that we could assign the $865 million of senior secured debt that it is projecting following debt reduction and restructuring a 'BBB-' rating with a stable outlook if it completes the unwind transaction on the specified terms.

Whether we will rate BREC's senior secured debt 'BBB-' hinges on the final terms of the lease termination conforming to the assumptions that the company presented to us. There are numerous preconditions to closing the transaction. E.ON must pay BREC about $500 million of cash compensation for taking back the generating assets and terminating the power supply arrangements. E.ON must also release BREC from certain financial obligations related to the lease that together with other noncash compensation totals $315 million. Additional conditions include:

- Obtaining necessary state and federal regulatory approvals;
- Exchanging payments;
- Obtaining favorable opinions covering the transaction's tax implications;
- Assessing the costs of environmental exposures and the status of environmental remediation projects;
- Exchanging releases extinguishing legal claims;
- Executing power supply agreements between BREC's leading distribution cooperative and its two largest customers; and
- Extending the tenor of the wholesale power supply contracts between the company and its three distribution cooperatives.

A complete list of the issues and conditions underlying the outcome of Standard & Poor's ratings evaluation are delineated in the letter we prepared for BREC.

Standard & Poor's Ratings Evaluation Letter To BREC

April 23, 2009

Mr. C. William Blackburn, CMA

Chief Financial Officer

Vice President of Financial Services and Power Supply

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Attachment to Item KIUC-92
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Page 19 of 48

201 Third Street

P.O. Box 24

Henderson, KY 42419-0024

Dear Mr. Blackburn:

Thank you for requesting that Standard & Poor's Ratings Services (Standard & Poor's, we, or us) provide Big Rivers Electric Corporation (BREC, the issuer, or you) with feedback on the credit rating implications of implementing the proposed scenario described below through its Rating Evaluation Service. Standard & Poor's has reviewed the scenario provided. The following is a summary analysis reflecting our Rating Evaluation committee's response.

Existing rating

BREC is not currently rated by Standard & Poor's.

Ratings evaluation scenario

As part of its 1998 Chapter 11 bankruptcy reorganization, BREC entered into an operating lease with LG&E Energy Marketing (LEM) covering its eight power plants. LEM leased BREC's generating assets for 25 years and agreed to sell energy to BREC and its customers at specified prices.

LEM's successor E.ON-U.S., LLC (E.ON) negotiated a buyout arrangement with BREC because of poor lease economics. The buyout allows the companies to terminate the lease fifteen years early. The parties negotiated a buyout that proposes that E.ON pay BREC about $500 million of cash compensation for taking back the generating assets and terminating the power supply arrangements. E.ON will also release BREC from another $315 million of financial obligations related to the lease.

There are numerous preconditions to closing the transaction. They include obtaining necessary state and federal regulatory approvals, exchanging payments, obtaining favorable opinions covering the transaction's tax implications, assessing the costs of environmental exposures and the status of environmental remediation projects, exchanging releases extinguishing legal claims, achieving specified credit rating thresholds, executing power supply agreements between BREC's leading distribution cooperative and its two largest customers, and extending the tenor of the wholesale power supply contracts between BREC and its three distribution cooperatives.

BREC asked us to assumed that if it, E.ON and BREC's leading customers meet the several closing conditions, it will use about $140 million of E.ON's $500 million termination payment to reduce debt and $218 million to create rate stabilization accounts benefiting non-smelter customers, which includes $61 million that the commission's final order directed E.ON to contribute to the rate stabilization accounts. BREC has also advised us that it will set aside about $35 million of E.ON receipts to mitigate the effects of potential smelter shutdowns and that it plans to hold the approximately $116 million balance of E.ON's cash payment as unrestricted cash reserves to enhance working capital.

Big Rivers has also asked us to assume that it will restructure debt as part of the lease termination transaction. Big Rivers has about $140 million of senior secured pollution control bonds and about $900 million of subordinate secured Rural Utilities Service debt. We are assuming that, at closing, the new indenture will collapse the senior and subordinate liens, converting the subordinate debt to parity senior debt.

Standard & Poor's conclusions are based on our review of the several October 2008 and April 2009 financial forecasts and scenarios prepared by BREC for Standard & Poor's review. We also reviewed the documents BREC submitted to us in October 2008 including, but not limited to, the indenture, wholesale and retail sales agreements, smelter agreements, RUS loan contract and revolving credit agreements. In addition, our evaluation reflects telephone conversations and meetings held between BREC and Standard & Poor's.

Ratings evaluation conclusions

It is Standard & Poor's opinion that the $865 million of senior secured debt that BREC is projecting following the lease's termination, its debt reduction and debt restructuring, may be assigned a 'BBB-' rating with a stable outlook if BREC completes the unwind transaction on the specified terms. Consistent with the assumptions you have provided, to achieve these ratings BREC would receive the contemplated E.ON payments, reduce debt as projected and convert all of its subordinated RUS notes to senior secured instruments on par with its outstanding senior lien pollution control bonds.

Rationale for rating conclusions

In our opinion, BREC faces several credit exposures that constrain the rating. They include:

A. We believe that BREC's extreme level of customer concentration and it leading customers' credit profiles represent meaningful credit exposures.

Assuming BREC severs its E.ON ties, it will use its power plants to produce and sell wholesale electricity. Its principal customers are its three member distribution cooperatives that will resell the electricity to their nearly 110,000 retail customers. BREC is projecting that only two of the 110,000 customers will account for about 60% of its revenues. These two customers, Rio Tinto Alcan (Alcan; BBB/Negative/--) and Century Aluminum Co. (Century; B/ Negative/--), are aluminum smelters whose operations and financial performance are exposed to extreme commodity price volatility. We believe these companies' economic viability hinges on aluminum prices, among other things. Notably, BREC expects Century's electricity purchases to provide 34% of its revenues, which meaningfully exposes BREC's financial profile to a single speculative grade customer's cash flows.

In recent months, many aluminum smelters curtailed operations following the sharp collapse of aluminum prices. If Alcan or Century ceased operations at their Kentucky facilities, BREC would need to sell surplus electricity in competitive wholesale markets in a bid to recover substantial portions of its fixed costs. If the smelters reduce their operations, BREC will need to sell the resulting surplus energy in the market for the benefit of the smelters. The several agreements signed by BREC, its distribution cooperative member, Kenergy Corp. (Kenergy), and the smelters provide that certain profits from market sales following curtailment inure to the benefit of the smelters. The agreements also provide that the smelters must cover BREC losses resulting from market sales following curtailment. Given Century's weak credit quality, its ability to make up shortfalls is questionable. If the smelters terminate operations, their BREC obligations end. While BREC may retain profits from off-system sales in this scenario it will also bear market the risk of losses.

We believe that selling electricity in wholesale markets to cover debt service presents meaningful credit challenges because wholesale market sales represent speculative and unpredictable revenue streams. Wholesale markets expose utilities to volatile prices, competing market participants, operational uncertainties such as acquiring physical access to transmission capacity, and potentially heightened liquidity needs.

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B. It is our opinion that the take-or-pay features of the retail power sales contracts between BREC distribution cooperative, Kenergy Corp., and the smelters are weak.

Kenergy is one of BREC's three member distribution cooperatives. The lease unwind provides for Kenergy to resell BREC electricity to the smelters under 14-year power supply contracts. These contracts have take-or-pay elements that require the smelters to pay for specific quantities of energy, irrespective of whether the smelters need the energy. Yet, we believe that these contracts' take-or-pay features are weak and do not provide meaningful credit protections. For example, the smelters can terminate their contracts without penalties if they close their Kentucky facilities. The smelters' parent companies are not backstopping their subsidiaries obligations under the power sales agreements.

C. We believe BREC's financial performance could suffer if the Kentucky Public Service Commission does not provide timely rate relief or disallows costs, particularly if BREC needs to reallocate the smelters' shares of fixed costs to its non-smelter customers.

It is our view that if the smelters close and BREC cannot fully recoup the smelters' share of fixed costs through surplus electricity sales in competitive wholesale markets, BREC's non-smelter retail customers may need to bear substantial additional costs. BREC will not have control over revenues if it needs to sell electricity in competitive wholesale markets to compensate for eroded smelter activity. Moreover, BREC can only recover shortfalls from the non-smelter retail customers if it and its distribution cooperative members can obtain rate relief from the Kentucky PSC.

Unlike many other cooperative utilities, BREC and its member distribution cooperatives cannot autonomously raise rates to respond to increasing costs or to reallocate costs. The Kentucky Public Service Commission (Kentucky PSC) regulates these utilities' wholesale and retail electricity rates. Rate regulation presents credit concerns because rate proceedings can be lengthy and delay cost recovery. Moreover, rate-regulated utilities do not have cost recovery guarantees. Nevertheless, in recent rate proceedings, the Kentucky PSC provided BREC's distribution cooperatives with rate relief that was closely aligned with the utilities' requests. Also, the commission has taken additional steps in connection with the lease termination that we view as supportive of credit quality, including directing E.ON to fund rate stabilization accounts benefitting BREC's members' non-smelter, retail customers. In addition, the average wholesale rates of more than $72 per megawatt-hour (MWH) the commission recently approved for East Kentucky Power Cooperative (East Kentucky), another generation and transmission cooperative, are substantially higher than BREC's current blended non-smelter rates of about $35 per MWH. We believe that rates set for East Kentucky indicate there is capacity for further BREC rate increases should they be needed to reallocate costs to BREC's non-smelter customers.

D. It is our view that BREC's few, vintage, coal-fired generation assets present operational exposures that can affect financial performance.

Assuming BREC and E.ON terminate their generation lease, BREC will sell the electricity it produces at its seven owned coal plants and the two coal plants it leases from Henderson, Kentucky's Municipal Power and Light utility. BREC operates and has contractual rights to nearly 1,800 MW of generation capacity. BREC's and Henderson's power plants range in age from 23 to 40 years, with a weighted average age of 32 years, based on contributions to overall generating capacity.

BREC's wholesale electric rates include automatic fuel and purchased power cost adjustment mechanisms that we believe mitigate some of the credit concerns surrounding the ability of the mature fleet to reliably serve native load customers. These true-up mechanisms shift some of the operational risks of operating older units to the smelter and non-smelter customers by making them responsible for replacement power costs if units are not running.

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While the fuel adjustment is an automatic, formulaic, monthly adjustment, the purchased power cost adjustment is only automatic for the smelters. Before they are eligible for recovery in rates, the PSC must review the power purchase costs BREC incurs on behalf of its non-smelter customers. All costs recoverable under the adjustment mechanisms are subject to PSC prudence reviews.

Some of BREC's plants have high heat rates. Its fleet's heat rates range from 10,600 BTU per kilowatt-hour (KWH) to 13,382 BTU per KWH with a weighted average heat rate of 11,100, reflecting the small percentage of the fleet with the highest heat rates. We are concerned that portions of the fleet may not dispatch to support market sales that compensate for losses of smelter sales.

BREC projects using coal to produce 95% of the electricity it sells, exposing the utility and its customers to potentially higher operating costs as the regulation of carbon and other emissions progresses. The plants' heat rates contribute to carbon intensity in the range of 1.1 tons of coal per MWH. The plants' ages, heat rates and carbon intensity raise questions about their ability to compete against potentially more efficient and less carbon-intensive units in wholesale markets if the smelters reduce or end their BREC electric purchases. It is our view that the extent of carbon regulation will determine the effects of this level of carbon intensity on BREC's production facilities' economics.

Because aluminum smelting is a carbon intensive process, we believe a combination of costly carbon constraints on aluminum production and carbon charges levied on the smelters' electricity purchases could impair the smelters' operations and heighten the likelihood that BREC's generating assets may have to compete in wholesale markets.

E. Although BREC is adding transmission capacity for physical access to wholesale markets, we believe it lacks the certainty of firm contractual transmission arrangements that can facilitate surplus power sales.

BREC advised us that it is adding transmission capacity to facilitate power sales to others if the smelters reduce operations or close. The Kentucky PSC approved the transmission capacity additions and BREC projects they will cost a moderate $5.3 million. Yet, we believe BREC's ability to remarket the smelters' power still presents credit concerns.

BREC's transmission additions could provide sufficient physical interconnections with wholesale markets. However, BREC lacks firm contractual access rights that could ensure that it can move power across others' transmission systems, including, the Tennessee Valley Authority (TVA) system. BREC only has contracts for 100 MW of firm transmission capacity across the TVA system. BREC's management views the high cost of securing firm transmission access for a contingent exposure as unwarranted. BREC has physical interconnections with other power markets beyond TVA, such as the Midwest ISO and the Southwest Power Pool. However, BREC's electricity needs to cross TVA's transmission system to access key markets such as Southern Company and Entergy. Lack of transmission access due to fully loaded lines during peak periods could frustrate BREC's ability to capture the most robust power prices for surplus power it may need to sell if it loses smelter loads.

These strengths temper the preceding credit exposures:

A. BREC advised us that it plans to reduce debt and build equity with transaction proceeds.

BREC plans to use about $140 million of E.ON's termination payments to reduce debt by nearly 16% and plans to use $218 million to create rate stabilization accounts benefitting its non-smelter customers. BREC plans to hold the balance of E.ON's cash payment as unrestricted cash reserves to enhance working capital. E.ON will also cancel some lease-related obligations, which will further reduce long-term debt. These actions will reduce debt to $872

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million following the transaction from $1.035 billion immediately prior to the transaction. Also, reducing debt and increasing cash balances will improve debt to capitalization to a sound 70% from a very weak 116%.

B. BREC projects funding its 2009-2013 capital needs from operating cash flow.

BREC projects $300 million of 2009-2013 capital spending to add environmental controls to generation plants and enhancing its transmission system. BREC believes that it will only need modest amounts of incremental debt if it has to sell the smelters' power in wholesale markets at depressed prices. It is our view that market sales at depressed prices could require meaningful additional debt. Market prices for surplus power sales and the Kentucky PSC's wholesale and retail rate adjustments for BREC and its member cooperatives will determine the precise amount of debt that could be needed.

C. It is our opinion that the long-term wholesale power contracts between BREC and its three member distribution cooperatives provide a measure of revenue stream security.

It is our understanding that terms of wholesale power contracts between BREC and its members require BREC's three member distribution cooperatives to purchase their electricity needs from BREC. BREC and its member distribution cooperatives must extend their wholesale power sales contracts by twenty years to 2043 in connection with the lease termination. This long tenor contributes to credit quality. Furthermore, the members have exclusive rights to sell electricity within defined service territories, which shields BREC and its members from competition for their electric loads.

BREC's long-term wholesale power contracts also contribute to credit quality because they extend twenty years beyond its debt's 2023 final maturity. BREC is contemplating restructuring and extending some debt to achieve level debt service. The 2043 expiration date accommodates debt restructuring. However, because the smelters contracts expire in 2023, debt extensions beyond 2023 would lead to maturities beyond the expiration of the smelters' contracts and debt service on debt maturing after 2023 may need to be supported by wholesale market revenues.

Generally, lengthy requirements contracts, such as BREC's, provide meaningful revenue predictability and credit support. However, BREC's members' substantial reliance on two industrial loads that are vulnerable to commodity price cycles erodes the contracts' credit support and distinguishes BREC from most other cooperative utilities. Rate regulation also dilutes the benefits of the long-term wholesale power contracts since BREC, unlike most other cooperatives, cannot unilaterally levy additional costs on its captive customers, which could frustrate a reallocation of fixed costs if it loses smelter loads. Also, BREC lacks control over prices for market sales it may need to make if the smelters' operations falter, tempering the wholesale power contracts' benefits.

D. It is our view that BREC's members' retail rates are highly competitive and they could contribute to financial flexibility.

Energy Information Administration data shows that BREC's members' retail rates compare very favorably with average rates for the residential, commercial and industrial sectors in Kentucky. Members' 2007 average residential rates were 13% below the state's average. Members' average commercial and industrial rates were 10% and 23% below the state's respective average rates for these classes.

We believe the smelters' high load factors are likely contributors to the favorable level of rate competitiveness because their consistently high electricity consumption provides a robust platform for spreading fixed costs over many megawatt hours. Here too, the exposure to the smelters can become a liability if commodity prices or economic conditions compromise the smelters' operations.

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April 23, 2009

Mr. C. William Blackburn, CMA
Chief Financial Officer
Vice President of Financial Services and Power Supply
201 Third Street
P.O. Box 24
Henderson, KY 42419-0024

Dear Mr. Blackburn:

Thank you for requesting that Standard & Poor's Ratings Services ("Standard & Poor's" or "we" or "us") provide Big Rivers Electric Corporation ("BREC" or the "Issuer" or "you") with feedback on the credit rating implications of implementing the proposed scenario described below through its Rating Evaluation Service ("RES"). Standard & Poor's has reviewed the scenario provided. The following is a summary analysis reflecting our Rating Evaluation committee's response.

Existing Rating

BREC is not currently rated by Standard & Poor's.

Ratings Evaluation Scenario

As part of its 1998 Chapter 11 bankruptcy reorganization, BREC entered into an operating lease with LG&E Energy Marketing ("LEM") covering its eight power plants. LEM leased BREC's generating assets for twenty-five years and agreed to sell energy to BREC and its customers at specified prices.

LEM's successor E.ON-U.S., LLC ("E.ON") negotiated a buyout arrangement with BREC because of poor lease economics. The buyout allows the companies to terminate the lease fifteen years early. The parties negotiated a buyout that proposes that E.ON pay BREC about $500 million of cash compensation for taking back the generating assets and terminating the power supply arrangements. E.ON will also release BREC from another $315 million of financial obligations related to the lease.

There are numerous preconditions to closing the transaction. They include obtaining necessary state and federal regulatory approvals, exchanging payments, obtaining favorable opinions covering the transaction's tax implications, assessing the costs of environmental exposures and the status of environmental remediation projects, exchanging releases extinguishing legal claims, achieving specified credit rating thresholds, executing power supply agreements between BREC's leading distribution cooperative and its two largest customers, and extending the tenor of the wholesale power supply contracts between BREC and its three distribution cooperatives.

BREC asked us to assumed that if it, E.ON and BREC's leading customers meet the several closing conditions, it will use about $140 million of E.ON's $500 million termination payment to reduce debt and $218 million to create rate stabilization accounts benefiting non-smelter customers, which includes $61 million that the commission's final order directed E.ON to contribute to the rate stabilization accounts. BREC has also advised us that it will set aside about $35 million of E.ON receipts to mitigate the effects of potential smelter shutdowns and that it plans to hold the approximately $116 million balance of E.ON's cash payment as unrestricted cash reserves to enhance working capital.

Big Rivers has also asked us to assume that it will restructure debt as part of the lease termination transaction. Big Rivers has about $140 million of senior secured pollution control bonds and about $900 million of subordinate secured Rural Utilities Service debt. We are assuming that, at closing, the new indenture will collapse the senior and subordinate liens, converting the subordinate debt to parity senior debt.

Standard & Poor's conclusions are based on our review of the several October 2008 and April 2009 financial forecasts and scenarios prepared by BREC for Standard & Poor's review. We also reviewed the documents BREC submitted to us in October 2008 including, but not limited to, the indenture, wholesale and retail sales agreements, smelter agreements, RUS loan contract and revolving credit agreements. In addition, our evaluation reflects telephone conversations and meetings held between BREC and Standard & Poor's.

Ratings Evaluation Conclusions

It is Standard & Poor's Rating Services' opinion that the $865 million of senior secured debt that BREC is projecting following the lease's termination, its debt reduction and debt restructuring, may be assigned a "BBB-" rating with a stable outlook if BREC completes the unwind transaction on the specified terms. Consistent with the assumptions you have provided, to achieve these ratings BREC would receive the contemplated E.ON payments, reduce debt as projected and convert all of its subordinated RUS notes to senior secured instruments on par with its outstanding senior lien pollution control bonds.

Rationale for Rating Conclusions

In our opinion, BREC faces several credit exposures that constrain the rating. They include:

A. **We believe that BREC's extreme level of customer concentration and it leading customers' credit profiles represent meaningful credit exposures.**

Assuming BREC severs its E.ON ties, it will use its power plants to produce and sell wholesale electricity. Its principal customers are its three member distribution cooperatives that will resell the electricity to their nearly 110,000 retail customers. BREC is projecting that only two of the 110,000 customers will account for about 60% of its revenues. These two customers, Rio Tinto Alcan ("Alcan," BBB/Negative) and Century Aluminum Co. ("Century," B/ Negative), are aluminum smelters whose operations and financial performance are exposed to extreme commodity price volatility. We believe these companies' economic viability hinges on aluminum prices, among other things. Notably, BREC expects Century's electricity purchases to provide 34% of its revenues, which meaningfully exposes BREC's financial profile to a single speculative grade customer's cash flows.

In recent months, many aluminum smelters curtailed operations following the sharp collapse of aluminum prices. If Alcan or Century ceased operations at their Kentucky facilities, BREC would need to sell surplus electricity in competitive wholesale markets in a bid to recover substantial portions of its fixed costs. If the smelters reduce their operations, BREC will need to sell the resulting surplus energy in the market for the benefit of the smelters. The several agreements signed by BREC, its distribution cooperative member, Kenergy Corp. ("Kenergy"), and the smelters provide that certain profits from market sales following curtailment inure to the benefit of the smelters. The agreements also provide that the smelters must cover BREC losses resulting from market sales following curtailment. Given Century's weak credit quality, its ability to make up shortfalls is questionable. If the smelters terminate operations, their BREC obligations end. While BREC may retain profits from off-system sales in this scenario it will also bear market the risk of losses.

We believe that selling electricity in wholesale markets to cover debt service presents meaningful credit challenges because wholesale market sales represent speculative and unpredictable revenue streams. Wholesale markets expose utilities to volatile prices, competing market participants, operational uncertainties such as acquiring physical access to transmission capacity, and potentially heightened liquidity needs.

B. **It is our opinion that the take-or-pay features of the retail power sales contracts between BREC distribution cooperative, Kenergy Corp., and the smelters are weak.**

Kenergy is one of BREC's three member distribution cooperatives. The lease unwind provides for Kenergy to resell BREC electricity to the smelters under fourteen-year power supply contracts. These contracts have take-or-pay elements that require the smelters to pay for specific quantities of energy, irrespective of whether the smelters need the energy. Yet, we believe that these contracts' take-or-pay features are weak and do not provide meaningful credit protections. For example, the smelters can terminate their contracts without penalties if they close their Kentucky facilities. The smelters' parent companies are not backstopping their subsidiaries obligations under the power sales agreements.

C. **We believe BREC's financial performance could suffer if the Kentucky Public Service Commission does not provide timely rate relief or disallows costs, particularly if BREC needs to reallocate the smelters' shares of fixed costs to its non-smelter customers.**

It is our view that if the smelters close and BREC cannot fully recoup the smelters' share of fixed costs through surplus electricity sales in competitive wholesale markets, BREC's non-smelter retail customers may need to bear substantial additional costs. BREC will not have control over revenues if it needs to sell electricity in competitive wholesale markets to compensate for eroded smelter activity. Moreover, BREC can only recover shortfalls from the non-smelter retail customers if it and its distribution cooperative members can obtain rate relief from the Kentucky PSC.

Unlike many other cooperative utilities, BREC and its member distribution cooperatives cannot autonomously raise rates to respond to increasing costs or to reallocate costs. The Kentucky Public Service Commission regulates these utilities' wholesale and retail electricity rates. Rate regulation presents credit concerns because rate proceedings can be lengthy and delay cost recovery. Moreover, rate-regulated utilities do not have cost recovery guarantees. Nevertheless, in recent rate proceedings, the Kentucky PSC provided BREC's distribution cooperatives with rate relief that was closely aligned with the utilities' requests. Also, the commission has taken additional steps in connection with the lease termination that we view as supportive of credit quality, including directing E.ON to fund rate stabilization accounts benefitting BREC's members' non-smelter, retail customers. In addition, the average wholesale rates of more than $72 per MWH the commission recently approved for East Kentucky Power Cooperative ("East Kentucky"), another generation and transmission cooperative, are substantially higher than BREC's current blended non-smelter rates of about $35 per MWH. We believe that rates set for East Kentucky indicate there is capacity for further BREC rate increases should they be needed to reallocate costs to BREC's non-smelter customers.

D. **<u>It is our view that BREC's few, vintage, coal-fired generation assets present operational exposures that can affect financial performance.</u>**

Assuming BREC and E.ON terminate their generation lease, BREC will sell the electricity it produces at its seven owned coal plants and the two coal plants it leases from Henderson, Kentucky's Municipal Power and Light utility. BREC operates and has contractual rights to nearly 1,800 MW of generation capacity. BREC's and Henderson's power plants range in age from 23 to forty years, with a weighted average age of 32 years, based on contributions to overall generating capacity.

BREC's wholesale electric rates include automatic fuel and purchased power cost adjustment mechanisms that we believe mitigate some of the credit concerns surrounding the ability of the mature fleet to reliably serve native load customers. These true-up mechanisms shift some of the operational risks of operating older units to the smelter and non-smelter customers by making them responsible for replacement power costs if units are not running.

While the fuel adjustment is an automatic, formulaic, monthly adjustment, the purchased power cost adjustment is only automatic for the smelters. Before they are eligible for recovery in rates, the PSC must review the power purchase costs BREC incurs on behalf of its non-smelter customers. All costs recoverable under the adjustment mechanisms are subject to PSC prudence reviews.

Some of BREC's plants have high heat rates. Its fleet's heat rates range from 10,600 BTU per KWH to 13,382 BTU per KWH with a weighted average heat rate of 11,100, reflecting the small percentage of the fleet with the highest heat rates. We are concerned that portions of the fleet may not dispatch to support market sales that compensate for losses of smelter sales.

BREC projects using coal to produce 95% of the electricity it sells, exposing the utility and its customers to potentially higher operating costs as the regulation of carbon and other emissions progresses. The plants' heat rates contribute to carbon intensity in the range of 1.1 tons of coal per MWH. The plants' ages, heat rates and carbon intensity raise questions about their ability to compete against potentially more efficient and less carbon-intensive units in wholesale markets if the smelters reduce or end their BREC electric purchases. It is our view that the extent of carbon regulation will determine the effects of this level of carbon intensity on BREC's production facilities' economics.

Because aluminum smelting is a carbon intensive process, we believe a combination of costly carbon constraints on aluminum production and carbon charges levied on the smelters' electricity purchases could impair the smelters' operations and heighten the likelihood that BREC's generating assets may have to compete in wholesale markets.

E. **<u>Although BREC is adding transmission capacity for physical access to wholesale markets, we believe it lacks the certainty of firm contractual transmission arrangements that can facilitate surplus power sales.</u>**

BREC advised us that it is adding transmission capacity to facilitate power sales to others if the smelters reduce operations or close. The Kentucky PSC approved the transmission capacity additions and BREC projects they will cost a moderate $5.3 million. Yet, we believe BREC's ability to remarket the smelters' power still presents credit concerns.

BREC's transmission additions could provide sufficient physical interconnections with wholesale markets. However, BREC lacks firm contractual access rights that could ensure that it can move power across others' transmission systems, including, the Tennessee Valley Authority ("TVA") system. BREC only has contracts for 100 MW of firm transmission capacity across the TVA system. BREC's management views the high cost of securing firm transmission access for a contingent exposure as unwarranted. BREC has physical interconnections with other power markets beyond TVA, such as the Midwest ISO and the Southwest Power Pool. However, BREC's electricity needs to cross TVA's transmission system to access key markets such as Southern Company and Entergy. Lack of transmission access due to fully loaded lines during peak periods could frustrate BREC's ability to capture the most robust power prices for surplus power it may need to sell if it loses smelter loads.

These strengths temper the preceding credit exposures:

A. **BREC advised us that it plans to reduce debt and build equity with transaction proceeds.**

BREC plans to use about $140 million of E.ON's termination payments to reduce debt by nearly 16% and plans to use $218 million to create rate stabilization accounts benefitting its non-smelter customers. BREC plans to hold the balance of E.ON's cash payment as unrestricted cash reserves to enhance working capital. E.ON will also cancel some lease-related obligations, which will further reduce long-term debt. These actions will reduce debt to $872 million following the transaction from $1.035 billion immediately prior to the transaction. Also, reducing debt and increasing cash balances will improve debt to capitalization to a sound 70% from a very weak 116%.

B. **BREC projects funding its 2009-2013 capital needs from operating cash flow.**

BREC projects $300 million of 2009-2013 capital spending to add environmental controls to generation plants and enhancing its transmission system. BREC believes that it will only need modest amounts of incremental debt if it has to sell the smelters' power in wholesale markets at depressed prices. It is our view that market sales at depressed prices could require meaningful additional debt. Market prices for surplus power sales and the PSC's wholesale and retail rate adjustments for BREC and its member cooperatives will determine the precise amount of debt that could be needed.

C. **It is our opinion that the long-term wholesale power contracts between BREC and its three member distribution cooperatives provide a measure of revenue stream security.**

It is our understanding that terms of wholesale power contracts between BREC and its members require BREC's three member distribution cooperatives to purchase their electricity needs from BREC. BREC and its member distribution cooperatives must extend their wholesale power sales contracts by twenty years to 2043 in connection with the lease termination. This long tenor contributes to credit quality. Furthermore, the members have exclusive rights to sell electricity within defined service territories, which shields BREC and its members from competition for their electric loads.

BREC's long-term wholesale power contracts also contribute to credit quality because they extend twenty years beyond its debt's 2023 final maturity. BREC is contemplating restructuring and extending some debt to achieve level debt service. The 2043 expiration date accommodates debt restructuring. However, because the smelters contracts expire in 2023, debt extensions beyond 2023 would lead to maturities beyond the expiration of the smelters' contracts and debt service on debt maturing after 2023 may need to be supported by wholesale market revenues.

Generally, lengthy requirements contracts, such as BREC's, provide meaningful revenue predictability and credit support. However, BREC's members' substantial reliance on two industrial loads that are vulnerable to commodity price cycles erodes the contracts' credit support and distinguishes BREC from most other cooperative utilities. Rate regulation also dilutes the benefits of the long-term wholesale power contracts since BREC, unlike most other cooperatives, cannot unilaterally levy additional costs on its captive customers, which could frustrate a reallocation of fixed costs if it loses smelter loads. Also, BREC lacks control over prices for market sales it may need to make if the smelters' operations falter, tempering the wholesale power contracts' benefits.

D. **It is our view that BREC's members' retail rates are highly competitive and they could contribute to financial flexibility.**

Energy Information Administration data shows that BREC's members' retail rates compare very favorably with average rates for the residential, commercial and industrial sectors in Kentucky. Members' 2007 average residential rates were 13% below the state's average. Members' average commercial and industrial rates were 10% and 23% below the state's respective average rates for these classes.

We believe the smelters' high load factors are likely contributors to the favorable level of rate competitiveness because their consistently high electricity consumption provides a robust platform for spreading fixed costs over many megawatt hours. Here too, the exposure to the smelters can become a liability if commodity prices or economic conditions compromise the smelters' operations.

E. **BREC projects sound debt service coverage, but we believe losing the smelters could impair financial performance.**

BREC projects debt service coverage of 1.35x or greater over the next decade. These coverage levels are stronger than those of many other G&T cooperatives'. Yet, these coverage levels do not enhance the rating because we believe that BREC needs robust coverage as a financial cushion against the vagaries of its aluminum smelter customers' performance.

BREC's base case financial forecast assumes that the smelters' operations are not impaired by either economic conditions or commodity prices.

BREC further assumes that its debt service coverage can strengthen if it loses the smelters' loads. BREC believes competitive wholesale markets can provide opportunities to earn revenues that are higher than the rates the smelters pay because the negotiated smelter rates yield low margins.

While we agree that wholesale markets may at times provide opportunities to reap windfalls, we believe that, on the whole, competitive wholesale market sales can erode financial margins. BREC faces considerable risks in wholesale market activity. If BREC must compete in wholesale markets to sell a meaningful amount of its power plants' capability to recover fixed costs, BREC, like other merchant generators, will need to find purchasers that can buy sufficient electricity to recoup the smelters' share of fixed costs. BREC must also secure enough transmission access to support such sales. During hours when coal is on the margin, BREC may face depressed market prices. The recent collapse of natural gas prices also places downward pressure on electricity prices. Furthermore, transmission constraints during peak periods may frustrate BREC's ability to obtain the best prices for its electricity.

We evaluated a number of stress scenarios with regard to potential financial results. These scenarios indicate that BREC's financial performance remains vulnerable to depressed market power prices if it loses the smelters. To preserve its rating in such scenarios, the utility would likely need regulatory approval for substantially higher rates for its non-smelter customers to shore-up financial performance. The regulator will play an important role in determining future credit quality if BREC needs to look to its non-smelter customers to absorb fixed costs previously borne by the smelters. Here, we believe that East Kentucky's significantly higher wholesale rates could be cited in support of a BREC request for rate relief for cost recovery.

This evaluation is both preliminary and confidential. It is preliminary in that it is based on hypothetical information recently presented to us. You understand that Standard & Poor's will not review, modify or surveil this evaluation. Subsequent information or changes to the information previously provided could result in final conclusions that differ from the preliminary proposed conclusions. Please note the conclusions provided herein are based on assumptions you and your team have provided to us. To the extent that these assumptions, our criteria or other factors change, the rating implications could also change. You understand and agree that we are not financial advisors to you and that in performing the RES, Standard & Poor's is providing indicative rating opinions on the scenarios presented; it is not endorsing or advocating any particular course of action. Nothing in this report is intended to create, or should be construed as creating, a fiduciary relationship between you and us and recipients of the indicative rating. We have not consented to and will not consent to being named an "expert" under applicable securities laws. Standard & Poor's indicative rating is not a "market" rating, nor is it a recommendation to buy, hold or sell any financial obligation of an issuer.

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Sincerely yours,

James Wiemken
Managing Director
Standard & Poor's Ratings Services
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Rating Action: Ohio (County of) KY

Moody's assigns (P)Baa1 to County of Ohio, Kentucky bonds to be issued on behalf of Big Rivers Electric Corp.

Approximately $83.3 million of proposed securities affected

New York, March 13, 2009 -- Moody's Investors Service assigned a (P)Baa1 senior secured rating to a proposed offering of $83.3 million of County of Ohio, Kentucky Pollution Control Revenue Refunding Bonds (Big Rivers Electric Corporation Project) to be issued on behalf of Big Rivers Electric Corporation (Big Rivers). The rating outlook for Big Rivers is stable. This rating represents the first time that Moody's has assigned a rating to bonds representing a standalone obligation of Big Rivers. Proceeds from the issuance of these bonds will be used to refund $83 3 million in aggregate principal amount of Pollution Control Refunding Revenue Bonds, Series 2001A (Big Rivers Electric Corporation Project) outstanding, which were previously issued on behalf of Big Rivers by the County of Ohio, Kentucky. The prior bonds were Periodic Auction Reset Securities that were insured as to the payment of principal and interest when due by Ambac Assurance Corporation. The proposed offering of bonds will represent standalone senior secured obligations of Big Rivers Electric Corporation, ranking on parity with all of Big Rivers' existing debt under its first mortgage bond indenture.

"The (P)Baa1 rating reflects anticipated financial benefits to Big Rivers of a series of steps being taken to unwind a lease and other transactions with E.ON U.S. LLC and two affiliates (E.ON), including an expectation that the cooperative's current deficit net worth will turn substantially positive, cash receipts will be utilized to reduce existing debt, and two new committed bank credit facilities aggregating $100 million will be established to improve liquidity", said Moody's Vice President, Kevin Rose. Big Rivers and E.ON have accepted the conditions included as part of the approval of the transactions obtained from the Kentucky Public Service Commission (KPSC) on March 6, 2009. Subject to meeting the required conditions, Big Rivers and E.ON expect to complete the unwinding of the transactions in April. Assuming an April closing, the above proposed financing is expected to occur by mid-summer. "Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners of Big Rivers should also continue to generate FFO to interest and debt metrics in support of the (P)Baa1 rating level, while capital expenditures are largely met with internally generated funds", Rose added.

Moody's further notes a significant constraint to Big Rivers' rating is the fact that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters, both of whom face credit challenges due to the significant fall off in both metal prices and demand, which have options to terminate their respective power purchase arrangements beginning on December 31, 2010, subject to one-year notice. In addition, Big Rivers' rating is constrained because it is subject to regulation by the KPSC, which is atypical for the cooperative sector and can sometimes pose challenges in implementing timely rate increases when needed to recover higher costs of service.

The principal methodology used in rating Big Rivers Electric Corporation was U.S. Electric Generation & Transmission Cooperatives, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

This rating action represents the first time that Moody's has assigned a rating to bonds representing a standalone obligation of Big Rivers.

Big Rivers Electric Corporation is an electric generation and transmission cooperative 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 111,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

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Credit Opinion

Moody's Global Corporate Finance

March 2009

Big Rivers Electric Corporation

Henderson, Kentucky, United States

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Key Indicators[1]

Big Rivers Electric Corporation

	2007	2006	2005
TIER [2]	1.7	1.5	1.4
DSCR [2]	1.8	1.6	1.8
FFO / Interest	2.1	1.9	1.8
FFO / Debt	6%	5%	4%
Equity / Capitalization	-16%	-21%	-26%
Net Operating Margin	30%	34%	32%

[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

- Expected deleveraging as the unwinding of 1998 vintage transactions nears completion
- 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)
- Substantial portion of revenues from electricity sold under long-term wholesale power contracts with member owners

Moody's Investors Service

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 111,000 residential commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The (P)Baa1 senior secured rating considers the anticipated financial benefits to Big Rivers of a series of steps being taken to unwind a lease and other transactions, including an expectation that the cooperative's current deficit net worth will turn substantially positive, cash receipts will be utilized to reduce existing debt, and two new committed bank credit facilities aggregating $100 million will be established to improve liquidity Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should also continue to generate FFO to interest and debt metrics in support of the rating level, while capital expenditures are largely met with internally generated funds Big Rivers' rating is a notch below the median A3 senior most rating for the sector A significant constraint to Big Rivers' rating is the fact that one of its member owners, Kenergy Corp , makes a high concentration of its sales to two aluminum smelters, both of whom face credit challenges due to the significant fall off in both metal prices and demand In addition, these smelters have the option to terminate their respective power purchase arrangements beginning December 31, 2010, subject to one-year notice. The rating is further constrained because the cooperative's rates are subject to regulation by the KPSC, which is atypical for the sector.

Detailed Rating Considerations

Impending Improvement In Financial Flexibility As Historical Transactions Unwind

Big Rivers took steps in 2008 to buyout two leveraged lease transactions and is nearing completion of a series of other steps to terminate another lease and other long-term transactions previously entered into with E ON U S. LLC (formerly known as LG&E Energy Marketing Inc) and Western Kentucky Energy Corp. These entities have been leasing and operating the generating units owned by Big Rivers In turn, Big Rivers has been 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 plans to enter into various new arrangements whereby it would sell to Kenergy 850 MW in aggregate for resale to the two aluminum smelters, contingent upon terminating other agreements, thereby reintroducing a concentration of load risk.

Key credit positives ultimately expected to result from consummation of all the so-called unwind transactions would be as follows: elimination of Big Rivers' deficit net worth, with equity to total capital expected to be close to 30% (among the highest percentages in the G&T rated universe); and partial utilization of the $508.5 million in cash payments to be received from E ON to repay about $140 2 million of debt owed to the Rural Utilities Service (RUS), and the establishment of $252 9 million of reserves (i e., $157 million economic reserve for future environmental 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 exhaustion of the Transition Reserve).

As part of this whole process. Big Rivers already 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 aforementioned cash payment from E ON upon consummation of

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unwinding all the various transactions includes full reimbursement of Big Rivers' lease buyout costs, and the $16 million remaining deferred loss on reacquired debt would be written off

Under a contract times interest earned ratio (TIER) arrangement with the two smelters, Big Rivers is assured of maintaining a minimum TIER of 1.24x, leaving ample cushion under its financial covenants and positioning itself favorably among its similarly rated peers. We expect this recently solid debt service coverage metric to remain relatively stable (i.e., in a range of 1.3x to 1.65x over the next several years.

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

Big Rivers owns generating capacity of about 1,440 megawatts (MW) in four substantially coal-fired plants. Total power capacity is about 1,833 MW, including rights to about 215 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 wholesale rates to members around $35 per MWh, which translates to member retail rates to non-smelter customers around 7 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty associated with the form and substance of future environmental legislation, the timing for implementation, and the amount of related costs to comply. We view this as more of a medium-term issue at this time and 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. We also note little need for general rate increases by Big Rives in the medium term, although we would not rule out additional revenues generated under the fuel adjustment clause and through use of a portion of the various reserve funds.

Wholesale Power Contracts Are A Linchpin To Sound Credit Profile

The substantial revenues derived under Big Rivers' long-term wholesale contracts with its members currently run through 2023 and will be extended to December 31, 2043 when the unwind of transactions is completed in the near term. The low cost power provided under the contracts makes it unlikely that there will be member disenchantment, even in the face of potential rate increases 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 further 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.

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 in the Summary Rating Rationale, this risk is a significant constraint to Big Rivers' rating, making Big Rivers' operating and risk profile rather unique compared to its peers. At this stage, the earliest possible date that the smelters could serve notice of termination of their contract would be December 31, 2010 (i.e. the smelters cannot provide notice until ongoing transmission capacity upgrade projects are completed). 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, transmission line expansion 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. Indeed, one of the smelters, Century Aluminum of Kentucky, recently announced the orderly curtailment of one of its five potlines, pending improvement in economic conditions. As a result, Big Rivers will move to sell the approximately 87 megawatts of capacity it would otherwise be providing to Kenergy for service to the one Century Aluminum pot line, into the open market.

Liquidity

Big Rivers currently supplements its internally generated funds with a committed $15 million secured line of credit from National Rural Utilities Cooperative Finance Corporation (CFC). As of December 2008, the CFC line had no direct draws against it, but there were $2.7 million of outstanding letters of credit. Prospectively, Big Rivers expects to put in place $100 million of unsecured committed three year revolver capacity, with CFC and CoBank providing $50 million each. Upon effectiveness of the new facilities, the $15 million facility would be terminated and any outstanding letters of credit would be rolled into the new CFC facility which would provide for issuance of up to $10 million of letters of credit. This step would be credit positive, representing a considerable increase in the amount of alternate liquidity available from the banks. Big Rivers expects to report about $38.9 million of unrestricted cash when it completes the audit for December 31, 2008 statements and cash flow from operations is projected to be around $121 million for 2008. Assuming completion of the unwind transactions during April 2009, cash flow from operations in 2009 near $100 million, no change in management's current policy with respect to not returning any patronage capital to members, and the planned additional bank revolvers are finalized, we expect Big Rivers to have sufficient means to meet its anticipated short-term working capital needs, capital expenditures (approximately $90 million) and scheduled principal repayments (approximately $13 million) over the next four quarters.

The quality of the alternate liquidity provided by the anticipated bank revolvers benefits from the multi-year tenor and the absence of any onerous financial covenants, which largely mirror the financial covenants in existing debt documents. Big Rivers is comfortably in compliance with those covenants and we expect that to remain so in the foreseeable future. Additionally, the CFC 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. 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

Substantially all of Big Rivers' assets are currently subject to the lien of an RUS mortgage; however, certain tax exempt debt of Big Rivers and any outstanding amounts under the existing $15 million secured CFC line of credit enjoy a super priority of payment claim and lien on assets under the current RUS mortgage over RUS. As part of the unwinding of various transactions, Big Rivers will replace the existing RUS mortgage with a new senior secured indenture. The new indenture would re-establish RUS and all senior secured debt holders on equal footing in terms of priority of claim and lien on assets. The new indenture will also provide Big Rivers with the flexibility to access public debt markets while retaining the right to borrow from RUS, 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 new secured indenture to be credit positive.

Rating Outlook

The stable rating outlook is based on expectations that Big Rivers successfully completes the unwind transactions in the near term, thereby improving its financial profile and repositioning itself to continue efficiently meeting the needs of its members in the future.

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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 6%, respectively, for a sustained period of time, then rating pressure could result

Other Considerations

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

Big Rivers' mapping under Moody's U S Electric Generation &Transmission Cooperative rating Methodology appears below The Indicated Rating for Big Rivers' senior most obligations under the Methodology is Baa1 and relies on historical quantitative data and qualitative assessments In particular we note that the Baa1 rating is significantly influenced by the weak standing for the factors relating to dependence on purchased power, the percentage of residential sales, and equity as a percentage of capitalization A more favorable prospective view of some of those factors, especially given the high likelihood we currently ascribe to successful completion of the aforementioned unwind transactions, would likely generate a higher Indicated Rating for Big Rivers under the Methodology Nevertheless the unique risks relating to Big Rivers load concentration to the smelters will likely persist and continue to constrain its rating level in the future

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Big Rivers Electric Corporation

Rating Factors

Big Rivers Electric Corporation

U.S. Electric Generation & Transmission Cooperatives	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Wholesale Power Contracts (15%)							
a) % Member Load Served		100%					
Factor 2: Rate Flexibility (20%)							
a) Regulatory Review / Relationship with Regulators				Baa			
b) Board Involvement / Rate Adjustment Mechanism				Baa			
c) Purchased Power / Sales %							100%
d) New Build Capex (% Net PP&E)			27%				
e) Rate Competitiveness			A				
f) Rate Shock Exposure			A				
Factor 3: Member / Owner Profile (20%)							
a) Demand Growth				2.00%			
b) Residential Sales / Total Sales						14.50%	
c) Members Consolidated Assets ($billions)					$0.38		
d) Members Consolidated Equity / Capitalization				33.70%			
e) Regulatory Status				Baa			
Factor 4: 3-Year Average Financial Metrics (40%)							
a) TIER		1.5x					
b) DSC		1.7x					
c) FFO / Debt				5.10%			
d) FFO / Interest				1.9x			
e) Equity / Capitalization							-21.10%
f) Net Operating Margin		32.20%					
Factor 5: Size (10%)							
a) MWh Sales				6.2			
b) Revenues ($millions)				$0.30			
c) Net PP&E ($millions)				$0.90			
d) MW Owned and Purchased					1,833		
Rating:							
a) Indicated Rating from Methodology			Baa1				
b) Actual Rating Assigned (Sr. Secured Rating)			(P) Baa1				

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Big Rivers Electric Corporation

Report Number: 115312_SC

Author	Production Associate
Kevin G. Rose	Diana Brimson

Moody's Investors Service

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CREDIT OPINION

Big Rivers Electric Corporation

Henderson, Kentucky, United States

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This Credit Opinion provides an in-depth discussion of credit rating(s) for Big Rivers Electric Corporation and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website

Key Indicators [1]

	2008	2007	2006	2005
TIER [2]	1.5	1.7	1.5	1.4
DSCR [2]	1.2	1.8	1.6	1.8
FFO / Interest	1.8	2.1	1.9	1.8
FFO / Debt	6%	6%	5%	4%
Equity / Capitalization	-17%	-16%	-21%	-26%
Net Operating Margin	35%	30%	34%	32%

[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
- 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)
- Substantial 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 111,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The (P)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 generate FFO to interest and debt metrics in support of the rating level, while capital expenditures are largely met with internally generated funds. Big Rivers' senior secured rating is a notch below the median A3 senior most rating for the sector.

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 Caa3; stable outlook and Rio Tinto Alcan: senior unsecured rating Baa1; 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

Unwind Of Historical Transactions Completed; Financial Flexibility Improved

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 reintroduces a concentration of load risk for Big Rivers. Key credit positives resulting from consummation of all the unwind transactions are as follows: elimination of Big Rivers' deficit net worth, with equity expected to be close to $379 million when December 31, 2009 financial statements are published (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 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 exhaustion 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

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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 targetting to maintain 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, exclusive of the non-recurring effects from the unwind transaction.

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 1,833 MW, including rights to about 212 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 wholesale rates to members around $36 per MWh, which translates to member retail rates to residential customers around 7 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty associated with the form and substance of future environmental legislation, the timing for implementation, and the amount of related costs to comply. We view this as more of a medium-term issue at this time and 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. We do not anticipate any filing for general rate increases by Big Rives in 2010, although we would not rule out additional revenues generated under the fuel adjustment clause and through use of a portion of the various reserve funds. The KPSC issued an order 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). We understand that management intends to comply with this mandate by filing its case with the KPSC in mid-2011 so that new rates would be effective January 1, 2012. Big Rivers' existing depreciation study and tariffs have been in place since July 1998 and September 1997, respectively.

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 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 further 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.

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. At this stage either of the two smelters could serve a one-year notice of termination of their contract at any time. However, if one smelter has given notice prior to the completion of the transmission capacity upgrade the other smelter may not give a termination notice with an effective date prior to December 31, 2011. 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, Big Rivers' current plans to join MISO, the ongoing expansion of its own transmission lines 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. Indeed, during 2009, Century Aluminum of Kentucky arranged for the orderly curtailment of one of its five potlines, pending improvement in economic conditions. Century Aluminum's potline remains shut down and Big Rivers has moved to sell into the open market the approximately 87 megawatts of capacity it would otherwise be providing to Kenergy for service to the one Century Aluminum pot line.

Liquidity

Since July 2009, Big Rivers has been supplementing 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. We understand that as of December 31, 2009 there were no borrowed amounts outstanding under the bank facilities, but $5.7 million of letters of credit were issued and outstanding. Based on Big Rivers' increase in available bank credit, our understanding that an unrestricted cash balance near $60 million is likely to be reported when 12/31/2009 financial statements are published, and assuming cash flow from operations in 2010 of approximately $61 million and no change in management's current policy of not returning any patronage capital to members, we expect Big Rivers to have sufficient means to meet its anticipated short-term working capital needs, capital expenditures (approximately $41 million) and scheduled principal repayments (approximately $14 million) over the next four quarters. The quality of the alternate liquidity provided by the bank revolvers benefits from the multi-year tenor 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. 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

Prior to completion of the unwind transactions in 2009, substantially all of Big Rivers' assets were subject to the lien of an RUS mortgage; however, certain tax exempt debt of Big Rivers and any outstanding amounts under the previously existing $15 million secured NRUCFC line of credit enjoyed a super priority of payment claim and lien on assets under the then existing RUS mortgage over RUS. 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. The new senior secured indenture re-established RUS and all senior secured debt holders on equal footing in terms of priority of claim and lien on assets. The new senior secured indenture also 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 borrow from RUS, 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 new 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 6%, respectively, for a sustained period of time, then rating pressure could result.

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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, 2008. We plan to further update this mapping and the Credit Opinion once more current data through December 31, 2009 becomes available. Meanwhile, the Indicated Rating for Big Rivers' senior most obligations under the Methodology is Baa2 and relies on the aforementioned historical quantitative data and qualitative assessments. In particular we note that the Baa2 rating is significantly influenced by the weak standing for the factors relating to dependence on purchased power, the percentage of residential sales, and equity as a percentage of capitalization. We hold a more favorable prospective view of some of those factors, especially given the 2009 completion of the unwind transactions. This view will likely generate a higher Indicated Rating for Big Rivers under the Methodology when the more current data is incorporated going forward. Nevertheless, the unique risks relating to Big Rivers load concentration to the smelters will likely persist and continue to constrain its rating level in the future.

Rating Factors

U.S. ELECTRIC GENERATION & TRANSMISSION COOPERATIVES	Aaa	Aa	A	Baa	Ba	B
Factor 1: % Member Load Served and Regulatory Status (20%)		X				
Factor 2. Rate Flexibility (20%)						
a) Board Involvement / Rate Adjustment Mechanism (5%)				X		
b) Purchased Power / Sales (5%)						X
c) New Build Capex / Net PP&E (5%)			X			
d) Rate Shock Exposure (5%)						X
Factor 3: Member / Owner Profile (10%)						
a) Residential Sales / Total Sales (5%)						X
b) Members' Consolidated Equity / Capitalization (5%)				X		
Factor 4: 3-Year Average Financial Metrics (40%)						
a) TIER (5%)		X				
b) DSC (5%)		X				
c) FFO / Debt (10%)				X		
d) FFO / Interest (10%)				X		
e) Equity / Capitalization (10%)						X
Factor 5: Size (10%)						
a) MWh Sales (5%)				X		
c) Net PP&E (5%)				X		
Rating						
a) Indicated Rating from Methodology				Baa2		
b) Actual Rating Assigned				(P) Baa1		

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Report Number: 123649

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MOODY'S
INVESTORS SERVICE

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 34) ***Please provide any and all corporate credit and bond ratings assigned to BREC since the year 2008 by S&P, Moody's, and Fitch. For any change in the credit and/or bond rating, please provide a copy of the associated report.***

Response) The credit rating reports on Big Rivers from S&P, Moody's and Fitch issued since 2008 are provided in the response to Item 33. There has been no change in the ratings assigned to Big Rivers since the July 2009 Unwind closing.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 35) ***Please provide a copy of: (1) the documents detailing the revenue requirement associated with BREC's Environmental Compliance Plan ("ECP"). The summary should include the annual amounts of eligible plant, depreciation, ECP rate base, TIER, operating expenses, any applicable tax rates and adjustment factor, and overall revenue requirements; (2) any applicable data and work papers in both hard copy and electronic (Microsoft Excel) formats, with all data and formulae intact.***

Response) Please reference the ECP tab of the "Build Case" financial model Excel file provided in Big Rivers' response dated April 26, 2012, to KIUC's Motion to Dismiss. The ECP tab includes the annual amounts of eligible plant, depreciation, rate base, TIER (which is a component of Return on Rate Base), operating expenses, property tax, property insurance, the overall revenue requirement, and the allocation of the revenue requirement based on Total Adjusted Revenue.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 36) *Please provide BREC's authorized and actual earned TIER over the past five years. Please provide all figures used in making any and all necessary calculations. Please provide copies of all associated work papers and source documents, in both hard copy and electronic (Microsoft Excel) formats, with all data and formulae intact.*

Response) The attached Excel workbook contains the earned TIER calculations for years 2007-2011. The Statement of Operations (RUS Form 12a) for years 2007-2011 were used for calculating earned TIER, and are also attached. Big Rivers' authorized TIER is 1.24 per the 2008 Unwind Financial Model and the Commission's Order in Case No. 2011-00036, general adjustment in rates.

Witness) Mark A. Hite

Big Rivers Electric Corporation
Case No. 2012-00063
Earned TIER Calculation

	2011	2010	2009	2008	2007
Earnings	5,600,381	6,990,915	531,330,257	27,815,731	47,176,877
Plus: Interest on LTD	45,715,144	47,064,226	60,027,927	75,192,513	74,115,114
Total	51,315,525	54,055,141	591,358,184	103,008,244	121,291,991
Divided by					
Interest on LTD	45,715,144	47,064,226	60,027,927	75,192,513	74,115,114
Conventional TIER	**1.12**	**1.15**	**9.85**	**1.37**	**1.64**

Per the October 2008 Unwind Financial Model, BREC's authorized TIER is 1.24.

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO
ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 37) ***Please provide copies of the financial statements (balance sheet, income statement, statement of cash flows, and the notes to the financial statements) for BREC for the past two years. Please provide copies of such data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulae intact.***

Response) Please see the attached documents. Also, please see the electronic versions provided on the CD accompanying these responses.

Witness) Mark A. Hite

Big Rivers Electric Corporation
Financial Statements
December 31, 2010 and 2009

KPMG

BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the Company) as of December 31, 2010 and the related statements of operations, equities, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Company as of December 31, 2009 and for the years ended December 31, 2009 and 2008 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 25, 2011

BIG RIVERS ELECTRIC CORPORATION

Balance Sheets

December 31, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Utility plant – net	$	1,091,566	1,078,274
Restricted investments – member rate mitigation		217,562	243,225
Other deposits and investments – at cost		5,473	5,342
Current assets:			
Cash and cash equivalents		44,780	60,290
Accounts receivable		45,905	47,493
Fuel inventory		37,328	37,830
Nonfuel inventory		23,218	20,412
Prepaid expenses		2,502	3,233
Total current assets		153,733	169,258
Deferred charges and other		3,851	9,384
Total	$	1,472,185	1,505,483
Equities and Liabilities			
Capitalization:			
Equities	$	386,575	379,392
Long-term debt		809,623	834,367
Total capitalization		1,196,198	1,213,759
Current liabilities:			
Current maturities of long-term obligations		7,373	14,185
Notes payable		10,000	—
Purchased power payable		1,516	3,362
Accounts payable		29,782	30,657
Accrued expenses		10,627	9,864
Accrued interest		11,134	9,097
Total current liabilities		70,432	67,165
Deferred credits and other:			
Regulatory liabilities – member rate mitigation		185,893	207,348
Other		19,662	17,211
Total deferred credits and other		205,555	224,559
Commitments and contingencies (see note 14)			
Total	$	1,472,185	1,505,483

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Operations

Years ended December 31, 2010, 2009, and 2008

(Dollars in thousands)

		2010	2009	2008
Operating revenue	$	527,324	341,333	214,758
Lease revenue		—	32,027	58,423
Total operating revenue		527,324	373,360	273,181
Operating expenses:				
Operations:				
Fuel for electric generation		207,749	80,655	—
Power purchased and interchanged		99,421	116,883	114,643
Production, excluding fuel		52,507	22,381	—
Transmission and other		35,273	35,444	28,600
Maintenance		46,880	29,820	4,258
Depreciation and amortization		34,242	32,485	31,041
Total operating expenses		476,072	317,668	178,542
Electric operating margin		51,252	55,692	94,639
Interest expense and other:				
Interest		46,570	59,898	65,719
Interest on obligations related to long-term lease		—	—	6,991
Amortization of loss from termination of long-term lease		—	2,172	811
Income tax expense		259	1,025	5,934
Other – net		166	112	123
Total interest expense and other		46,995	63,207	79,578
Operating margin		4,257	(7,515)	15,061
Nonoperating margin:				
Interest income on restricted investments under long-term lease		—	—	8,742
Gain on unwind transaction (see note 2)		—	537,978	—
Interest income and other		2,734	867	4,013
Total nonoperating margin		2,734	538,845	12,755
Net margin	$	6,991	531,330	27,816

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Equities (Deficit)

Years ended December 31, 2010, 2009, and 2008

(Dollars in thousands)

	Total equities (deficit)	Accumulated margin (deficit)	Other equities: Donated capital and memberships	Other equities: Consumers' contributions to debt service	Accumulated other comprehensive income
Balance – December 31, 2007	$ (174,137)	(174,639)	764	3,681	(3,943)
Comprehensive income:					
Net margin	27,816	27,816	—	—	—
Defined benefit plans	(8,281)	—	—	—	(8,281)
Total comprehensive income	19,535	27,816	—	—	(8,281)
Balance – December 31, 2008	(154,602)	(146,823)	764	3,681	(12,224)
Comprehensive income:					
Net margin	531,330	531,330	—	—	—
Defined benefit plans	2,664	—	—	—	2,664
Total comprehensive income	533,994	531,330	—	—	2,664
Balance – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	—	—	—
Defined benefit plans	192	—	—	—	192
Total comprehensive income	7,183	6,991	—	—	192
Balance – December 31, 2010	$ 386,575	391,498	764	3,681	(9,368)

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2010, 2009, and 2008

(Dollars in thousands)

		2010	2009	2008
Cash flows from operating activities:				
Net margin	$	6,991	531,330	27,816
Adjustments to reconcile net margin to net cash provided by operating activities:				
Depreciation and amortization		37,650	37,084	34,320
Increase in restricted investments under long-term lease		—	—	(2,502)
Decrease in deferred AMT income taxes		—	—	5,035
Amortization of deferred loss (gain) on sale-leaseback – net		—	2,172	(1,187)
Deferred lease revenue		—	(3,768)	(4,582)
Residual value payments obligation gain		—	(3,881)	(6,748)
Interest compounded – RUS Series B Note		6,499	6,136	5,841
Increase in obligations under long-term lease		—	—	2,749
Noncash gain on unwind transaction		—	(269,441)	—
Cash received for member rate mitigation		—	217,856	—
Noncash member rate mitigation revenue		(23,953)	(12,033)	—
Changes in certain assets and liabilities:				
Accounts receivable		1,588	(26,049)	6,218
Inventories		(2,304)	(3,497)	12
Prepaid expenses		731	(2,783)	(319)
Deferred charges		1,251	(1,538)	1,871
Purchased power payable		(1,846)	(5,973)	(3,702)
Accounts payable		(875)	24,825	899
Accrued expenses		2,800	7,881	327
Other – net		555	6,852	(4,940)
Net cash provided by operating activities		29,087	505,173	61,108
Cash flows from investing activities:				
Capital expenditures		(42,683)	(58,388)	(22,760)
Proceeds from disposition of investments related to sale-leaseback		—	—	222,739
Proceeds from restricted investments		28,143	8,982	—
Purchases of restricted investments and other deposits and investments		—	(252,798)	(401)
Net cash provided by (used in) investing activities		(14,540)	(302,204)	199,578
Cash flows from financing activities:				
Principal payments on long-term obligations		(121,355)	(168,956)	(40,838)
Proceeds from long-term obligations		83,300	—	—
Principal payments on short-term notes payable		—	(12,380)	—
Proceeds from short-term notes payable		10,000	—	—
Payments upon termination of sale-leaseback		—	—	(329,859)
Debt issuance cost on bond refunding		(2,002)	(246)	—
Net cash used in financing activities		(30,057)	(181,582)	(370,697)
Net increase (decrease) in cash and cash equivalents		(15,510)	21,387	(110,011)
Cash and cash equivalents – beginning of year		60,290	38,903	148,914
Cash and cash equivalents – end of year	$	44,780	60,290	38,903
Supplemental cash flow information:				
Cash paid for interest	$	37,268	51,078	74,819
Cash paid for income taxes		260	626	1,220

See accompanying notes to financial statements

(1) Organization and Summary of Significant Accounting Policies

(a) General Information

Big Rivers Electric Corporation ("Big Rivers" or the "Company"), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC's principal assets were the restricted investments acquired in connection with the 2000 sale-leaseback transaction discussed in Note 4. The sale-leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 7, 2009, in conjunction with the Unwind Transaction (See Note 2).

Management evaluated subsequent events up to and including March 25, 2011, the date the financial statements were available to be issued.

(b) Principles of Consolidation

The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

(c) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

(d) ***System of Accounts***

Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(e) ***Revenue Recognition***

Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, *Leases*, Big Rivers' revenue from the Lease Agreement was recognized on a straight-line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in Note 2).

(f) ***Utility Plant and Depreciation***

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted average debt to the accumulated expenditures for qualifying projects included in construction in progress.

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by LG&E and KU Energy LLC (formerly E.ON U.S. LLC) as utility plant to which the Company maintained title. A corresponding obligation to LG&E and KU Energy LLC (LG&E and KU). was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2010 and 2009, the Company recorded $0 and $5,557, respectively, for such additions in utility plant. The Company recorded $0, $3,881, and $6,748 in 2010, 2009, and 2008, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, LG&E and KU waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E and KU (see Note 2) that were recorded by the Company as utility plant and lease revenue, LG&E and KU also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the

(Dollars in thousands)

Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of $19,679 for the Nonincremental Capital assets for which LG&E and KU had waived rights to.

LG&E and KU constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of $98,500 in 2009.

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	1.60% – 2.47%
Transmission plant	1.76% – 3.24%
General plant	1.11% – 5.62%

For 2010, 2009, and 2008, the average composite depreciation rates were 1.86%, 1.85%, and 1.85%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

(g) *Impairment Review of Long-Lived Assets*

Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with FASB ASC 360, *Property, Plant, and Equipment* as it relates to impairment of long-lived assets. FASB ASC 360 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to operations or discontinued operations.

(h) *Inventory*

Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

(i) *Restricted Investments*

Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).

(j) ***Cash and Cash Equivalents***

Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

(k) ***Income Taxes***

Big Rivers was formed as a tax-exempt cooperative organization described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax exempt status and will be treated as a taxable cooperative.

.As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonmember operations are taxable to Big Rivers. Big Rivers files a Federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely-than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(l) ***Patronage Capital***

As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income.

(m) ***Derivatives***

Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts and, therefore, the contracts are not required to be recognized at fair value in the financial statements.

(Continued)

(n) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-Level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

(Continued)

(Dollars in thousands)

(2) LG&E Lease Agreement

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the "Unwind Transaction" or "Unwind"). LG&E and KU, WKEC, and LEM are collectively referred to in the Notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

		Unwind gain
Assets received:		
Cash	$	506,675
Coleman scrubber		98,500
Inventory		55,000
Construction in progress		23,074
Utility plant assets		19,679
SO2 allowances		980
Liabilities (assumed) forgiven:		
Economic Reserve		(157,000)
Rural Economic Reserve		(60,856)
Post-retirement benefits liability		(8,768)
Residual value payments obligation		145,251
LEM Settlement Note		15,440
Recognition of (expenses) income:		
Deferred lease income		7,187
Deferred loss from termination of sale/leaseback		(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note		(14,520)
Unwind transaction costs		(18,991)
Other		156
Gain on unwind transaction	$	537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

On July 15, 1998 (Effective Date), a lease was consummated (Lease Agreement), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation (WKEC), a wholly owned subsidiary of LG&E and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

Big Rivers continued to operate its transmission facilities and charged LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement were as follows:

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

c. WKEC paid Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

d. On the Effective Date, Big Rivers received $69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtained the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy Corp.'s retail service for the Aluminum Smelters was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the "Monthly Margin Payments").

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. Big Rivers entered into a note payable with LEM for $19,676 (the "LEM Settlement Note") to be repaid over the term of the Lease Agreement, with an interest rate at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of $89. For the year 2011, Big Rivers was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as "Arbitrage"). Pursuant to the New RUS Promissory Note (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

(Dollars in thousands)

(3) Utility Plant

At December 31, 2010 and 2009, utility plant is summarized as follows:

		2010	2009
Classified plant in service:			
Production plant	$	1,689,024	1,675,733
Transmission plant		237,689	236,639
General plant		18,937	18,201
Other		543	543
		1,946,193	1,931,116
Less accumulated depreciation		909,501	908,099
		1,036,692	1,023,017
Construction in progress		54,874	55,257
Utility plant – net	$	1,091,566	1,078,274

Interest capitalized for the years ended December 31, 2010, 2009, and 2008, was $684, $133, and $492, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2010 and 2009, the Company had approximately $38,000 and $35,835, respectively, related to non-legal removal costs included in accumulated depreciation.

(4) Sale-Leaseback

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provided Big Rivers a $1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction; with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

(Dollars in thousands)

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, Big Rivers received $866,676 of proceeds and incurred $791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished $656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased investments with an initial value of $146,647 to fund the remaining $135,597 of the obligations. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 6.89% on its related investments. The Company made a $64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The $75,050 gain was deferred and was amortized up to the date of lease termination, with the Company recognizing $1,998 in 2008.

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the year ended December 31, 2008, were as follows:

		2008
Power contracts revenue (revenue discount adjustment – see Note 6)	$	(2,453)
Interest on obligations related to long-term lease:		
Interest expense	$	8,989
Amortize gain on sale-leaseback		(1,998)
Net interest on obligations related to long-term lease	$	6,991
Interest income on restricted investments under long-term lease	$	8,742
Interest income and other		779

(Dollars in thousands)

(5) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2010 and 2009, is as follows:

	2010	2009
RUS Series A Promissory Note, stated amount of, $561,061, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$ 558,731	596,786
RUS Series B Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	116,165	109,666
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	83,300	—
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.56% and 10.50% in 2010 and 2009, respectively), maturing in October 2022	—	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.27% and 3.22% in 2010 and 2009, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	816,996	848,552
Current maturities	7,373	14,185
Total long-term debt – net of current maturities	$ 809,623	834,367

The following are scheduled maturities of long-term debt at December 31:

	Amount
Year:	
2011	$ 7,373
2012	76,078
2013	79,275
2014	21,676
2015	22,968
Thereafter	609,626
Total	$ 816,996

(a) RUS Notes

On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009

Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) Pollution Control Bonds

In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031. Proceeds from the Series 2010A Bonds were used to refund the $83,300, County of Ohio, Kentucky, Periodic Auction Rate Securities, Series 2001A.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

The Series 1983 bonds are supported by a liquidity facility issued by Credit Suisse First Boston, which was assigned to Dexia Credit in 2006. In addition, the Series 1983 bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

The Series 1983 are subject to a maximum interest rate of 13% . The December 31, 2010 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) LEM Settlement Note

On July 15,1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately $1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of $15,440 was forgiven.

(d) Notes Payable

Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. Big Rivers had $10,000 of borrowings outstanding, at an interest rate of 2.46%, on the CoBank line of credit at December 31, 2010. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,928. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. At December 31, 2010 the Company had available to it a $2,500 line of credit with CFC to finance storm emergency repairs and expenses related to electric utility operations with a February 25, 2011 maturity date.

(e) Covenants

Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' 2010 MFIR was 1.15 and its DSCR was 1.47.

(6) Rate Matters

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting authority to adjust its rates for wholesale electric service.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

The wholesale rates established for the members non-smelter large direct-served industrial customers (the "Large Industrial Rate") provide the basis for pricing the energy consumed by the Aluminum Smelters. The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per MWh determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

(7) Income Taxes

As a result of the sale-leaseback terminations in 2008 (see note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted of Net Operating Loss (NOL) Carryforwards, Alternative Minimum Tax (AMT) Credit Carryforwards, Fixed Asset Book to Tax Differences, Economic Reserve Book to Tax Differences, and RUS Series B Note Book to Tax Differences). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. AMT charges were recorded in the Statement of Operations for 2010 and 2009 in the amount of $259 and $1,025, respectively.

At December 31, 2010, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $42,354 expiring at various times between 2010 and 2030, and an Alternative Minimum Tax Credit Carryforward of approximately $6,038, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2010, 2009 and 2008, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,846, $19,619, and $20,363 in current regular tax expense for the years ended December 31, 2010, 2009 and 2008, respectively.

BIG RIVERS ELECTRIC CORPORATION

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Dollars in thousands)

The components of the net deferred tax assets as of December 31, 2010 and 2009, were as follows:

		2010	2009
Deferred tax assets:			
Net operating loss carryforward	$	16,730	20,990
Alternative minimum tax credit carryforwards		6,038	7,052
Member rate mitigation		10,326	10,326
Fixed asset basis difference		10,752	11,420
RUS Series B Note		14,767	—
Total deferred tax assets		58,613	49,788
Deferred tax liabilities:			
RUS Series B Note		—	(23,793)
Bond refunding costs		(8)	—
Total deferred tax liabilities		(8)	(23,793)
Net deferred tax asset (prevaluation allowance)		58,605	25,995
Valuation allowance		(58,605)	(25,995)
Net deferred tax asset	$	—	—

A reconciliation of the Company's effective tax rate for 2010, 2009 and 2008, follows:

	2010	2009	2008
Federal rate	35.0%	35.0%	35.0%
State rate – net of federal benefit	4.5	4.5	4.5
Permanent differences	0.5	—	—
Patronage allocation to members	(38.8)	(35.4)	(31.3)
Tax benefit of operating loss carryforwards and other	(1.2)	(4.1)	(8.2)
Alternative minimum tax	3.0	0.2	18.0
Effective tax rate	3.0%	0.2%	18.0%

(Continued)

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2006 through 2010 and 1995 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2003 through 2010 and years 2001 through 2002, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2010, 2009, or 2008.

(8) Power Purchased

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not reduce the contract limits by more than 12 MW in any year or by more than a total of 72 MW over the lease term. In the event Big Rivers failed to take the minimum requirement during any hour or year, Big Rivers was liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2009 and 2008, were \$51,592 and \$99,700, respectively, and are included in power purchased and interchanged on the statement of operations.

(9) Pension Plans

(a) Defined Benefit Plans

Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

(Dollars in thousands)

The Company has adopted FASB ASC 715, *Defined Benefit Plans*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2010 and 2009.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2010 and 2009, follows:

		2010	2009
Benefit obligation – beginning of period	$	25,493	24,253
Service cost – benefits earned during the period		1,289	1,241
Interest cost on projected benefit obligation		1,368	1,466
Participant contributions (lump sum repayment)		—	40
Plan settlements		—	262
Benefits paid		(806)	(3,945)
Actuarial loss		1,460	2,176
Benefit obligation – end of period	$	28,804	25,493

The accumulated benefit obligation for all defined benefit pension plans was $21,977 and $18,630 at December 31, 2010 and 2009, respectively.

(Continued)

(Dollars in thousands)

A reconciliation of the Company's pension plan assets at December 31, 2010 and 2009, follows:

		2010	2009
Fair value of plan assets – beginning of period	$	22,270	20,295
Actual return on plan assets		2,707	4,820
Employer contributions		1,096	1,060
Participant contributions (lump sum repayment)		—	40
Benefits paid		(806)	(3,945)
Fair value of plan assets – end of period	$	25,267	22,270

The funded status of the Company's pension plans at December 31, 2010 and 2009, follows:

		2010	2009
Benefit obligation – end of period	$	(28,804)	(25,493)
Fair value of plan assets – end of period		25,267	22,270
Funded status	$	(3,537)	(3,223)

Components of net periodic pension costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

		2010	2009	2008
Service cost	$	1,289	1,241	1,072
Interest cost		1,368	1,466	1,220
Expected return on plan assets		(1,533)	(1,332)	(1,516)
Amortization of prior service cost		19	19	19
Amortization of actuarial loss		584	834	247
Settlement loss		—	1,690	—
Net periodic benefit cost	$	1,727	3,918	1,042

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

		2010	2009
Prior service cost	$	(40)	(59)
Unamortized actuarial (loss)		(9,354)	(9,651)
Accumulated other comprehensive income	$	(9,394)	(9,710)

(Dollars in thousands)

In 2011, $19 of prior service cost and $560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

		2010	2009
Prior service cost	$	19	19
Unamortized actuarial (loss)		297	3,575
Other comprehensive income	$	316	3,594

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

		2010	2009
Deferred credits and other	$	(3,537)	(3,223)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2010	2009	2008
Discount rate – projected benefit obligation	4.95%	5.59%	6.38%
Discount rate – net periodic benefit cost	5.59	6.38	6.25
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement Level based on (a) forward-looking rate of return expectations for passively managed asset categories over a 20-year time horizon and (b) historical rates of return for passively managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

(Dollars in thousands)

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2010 and 2009, the investment allocation was 58% and 55%, respectively, in U.S. Equities, 9% and 11%, respectively, in International Equities, and 33% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi-annually.

At December 31, 2010 and 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category, as required by FASB ASC 320 (see Note 1), are as follows:

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	—	1,517
Equity securities:			
U.S. large-cap stocks	9,731	—	9,731
U.S. mid-cap stock mutual funds	2,926	—	2,926
U.S. small-cap stock mutual funds	1,448	—	1,448
International stock mutual funds	2,194	—	2,194
Preferred stock	490	—	490
Fixed:			
TIPS Bond Fund	161	—	161
U.S. Government Agency Bonds	—	1,843	1,843
Taxable U.S. Municipal Bonds	—	2,635	2,635
U.S. Corporate Bonds	—	2,322	2,322
	$ 18,467	6,800	25,267

(Dollars in thousands)

		Level 1	Level 2	December 31, 2009
Cash and money market	$	815	—	815
Equity securities:				
U.S. large-cap stocks		8,580	—	8,580
U.S. mid-cap stock mutual funds		2,064	—	2,064
U.S. small-cap stock mutual funds		1,282	—	1,282
International stock mutual funds		2,328	—	2,328
Preferred stock		404	—	404
Fixed:				
U.S. Government Agency Bonds		—	2,139	2,139
Taxable U.S. Municipal Bonds		—	2,282	2,282
U.S. Corporate Bonds		—	2,376	2,376
	$	15,473	6,797	22,270

Expected retiree pension benefit payments projected to be required during the years following 2010 are as follows:

		Amount
Years ending December 31:		
2011	$	1,788
2012		2,115
2013		3,939
2014		1,787
2015		3,139
2016 – 2020		12,017
Total	$	24,785

In 2011, the Company expects to contribute $949 to its pension plan trusts.

(b) Defined Contribution Plans

Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

(Dollars in thousands)

The Company's expense under these plans was $4,389 and $355 for the years ended December 31, 2010 and 2009, respectively.

(c) *Deferred Compensation Plan*

Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2010 employer contribution was $61 and deferred compensation expense was $108. As of December 31, 2010, the trust asset was $205 and the deferred liability was $165.

(10) Restricted Investments

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2010 and 2009 are as follows:

		2010		2009	
		Amortized costs	Fair values	Amortized costs	Fair values
Cash and money market	$	12,812	12,812	25,186	25,186
Debt securities:					
U.S. Treasuries		60,941	62,582	67,895	67,474
U.S. Government Agency		143,809	143,922	150,144	150,181
Total	$	217,562	219,316	243,225	242,841

(Dollars in thousands)

Gross unrealized gains and losses on restricted investments at December 31, 2010 and 2009 were as follows:

		2010 Gains	2010 Losses	2009 Gains	2009 Losses
Cash and money market	$	—	—	—	—
Debt securities:					
U.S. Treasuries		1,641	—	12	434
U.S. Government Agency		331	217	79	41
Total	$	1,972	217	91	475

Debt securities at December 31, 2010 and 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

		2010 Amortized costs	2010 Fair values	2009 Amortized costs	2009 Fair values
In one year or less	$	71,111	71,193	46,102	46,112
After one year through five years		146,451	148,123	197,123	196,729
Total	$	217,562	219,316	243,225	242,841

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009, were:

		2010 Less than 12 months Losses	2010 Less than 12 months Fair values	2009 Less than 12 months Losses	2009 Less than 12 months Fair values
Debt securities:					
U.S. Treasuries	$	—	—	434	59,872
U.S. Government Agency		217	15,783	41	45,026
Total	$	217	15,783	475	104,898

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2010 and 2009 was one and eight, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

(Continued)

(Dollars in thousands)

(11) Fair Value of Other Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320 that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

		2010	2009
Institutional money market government portfolio	$	44,774	59,887

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

Big Rivers' long-term debt at December 31, 2010 consists of RUS notes totaling $674,896, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2010, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $82,099.

(12) Postretirement Benefits Other than Pensions

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. National Rural Electric Cooperative Association (NRECA), the provider of Big Rivers' health plan coverage through the

(Dollars in thousands)

NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2010	2009	2008
Discount rate – projected benefit obligation	4.96%	5.78%	6.32%
Discount rate – net periodic benefit cost	5.78	6.32	5.85

The health care cost trend rate assumptions as of December 31, 2010 and 2009, were as follows:

	2010	2009
Initial trend rate	7.60%	7.70%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

		2010	2009
One-percentage-point decrease:			
Effect on total service and interest cost components	$	(201)	(138)
Effect on year end benefit obligation		(1,131)	(989)
One-percentage-point increase:			
Effect on total service and interest cost components		236	162
Effect on year end benefit obligation		1,306	1,134

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2010 and 2009, follows:

		2010	2009
Benefit obligation – beginning of period	$	13,864	2,948
Service cost – benefits earned during the period		1,313	878
Interest cost on projected benefit obligation		743	464
Transaction benefit obligation assumed in the unwind		—	8,768
Participant contributions		85	48
Plan amendments		—	175
Benefits paid		(313)	(203)
Actuarial loss		172	786
Benefit obligation – end of period	$	15,864	13,864

(Continued)

(Dollars in thousands)

A reconciliation of the Company's postretirement plan assets at December 31, 2010 and 2009, follows:

		2010	2009
Fair value of plan assets – beginning of period	$	—	—
Employer contributions		228	155
Participant contributions		85	48
Benefits paid		(313)	(203)
Fair value of plan assets – end of period	$	—	—

The funded status of the Company's postretirement plan at December 31, 2010 and 2009, follows:

		2010	2009
Benefit obligation – end of period	$	(15,864)	(13,864)
Fair value of plan assets – end of period		—	—
Funded status	$	(15,864)	(13,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

		2010	2009	2008
Service cost	$	1,313	878	129
Interest cost		743	464	167
Amortization of prior service cost		17	17	2
Amortization of actuarial (gain)		—	(17)	(60)
Amortization of transition obligation		31	31	31
Net periodic benefit cost	$	2,104	1,373	269

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

		2010	2009
Prior service cost	$	(147)	(165)
Unamortized actuarial gain		235	407
Transition obligation		(62)	(92)
Accumulated other comprehensive income	$	26	150

In 2011, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

(Dollars in thousands)

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

		2010	2009
Prior service cost	$	18	(157)
Unamortized actuarial gain		(172)	(803)
Transition obligation		30	30
Other comprehensive loss	$	(124)	(930)

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

		2010	2009
Accounts payable	$	(600)	(424)
Deferred credits and other		(15,264)	(13,440)
Net amount recognized	$	(15,864)	(13,864)

Expected retiree benefit payments projected to be required during the years following 2010 are as follows:

		Amount
Year:		
2011	$	600
2012		813
2013		995
2014		1,201
2015		1,355
2016 – 2020		8,685
Total	$	13,649

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $391 and $375 at December 31, 2010 and 2009, respectively. The postretirement expense recorded was $21, $45, and $62 for 2010, 2009, and 2008, respectively, and the benefits paid were $5, $78, and $0 for 2010, 2009, and 2008, respectively.

(13) Related Parties

For the years ended December 31, 2010, 2009, and 2008, Big Rivers had tariff sales to its members of $151,001, $125,826, and $114,514, respectively. In addition, for the years ended December 31, 2010, 2009, and 2008, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $281,473, $167,885, and $55,124, respectively.

At December 31, 2010 and 2009, Big Rivers had accounts receivable from its members of $36,636 and $35,524, respectively.

Revenue and offsetting expense amounts related to Big Rivers' energy services department reservation of the Company's transmission (in accordance with its Open Access Transmission Tariff) for third party sales in 2010 and 2009, were $12,129, and $10,099, respectively.

(14) Commitments and Contingencies

Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Big Rivers Electric Corporation
Financial Statements
December 31, 2011 and 2010

KPMG

BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the Company) as of December 31, 2011 and 2010, and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying financial statements of the Company for the year ended December 31, 2009 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2012, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

March 26, 2012

BIG RIVERS ELECTRIC CORPORATION

Balance Sheets

December 31, 2011 and 2010

(Dollars in thousands)

Assets		**2011**		**2010**
Utility plant – net	$	1,092,063	$	1,091,566
Restricted investments – member rate mitigation		163,162		217,562
Other deposits and investments – at cost		5,911		5,473
Current assets:				
Cash and cash equivalents		44,849		44,780
Accounts receivable		44,287		45,905
Fuel inventory		33,894		37,328
Nonfuel inventory		25,295		23,218
Prepaid expenses		4,217		2,502
Total current assets		152,542		153,733
Deferred charges and other		4,244		3,851
Total	$	1,417,922	$	1,472,185
Equities and Liabilities				
Capitalization:				
Equities	$	389,820	$	386,575
Long-term debt		714,254		809,623
Total capitalization		1,104,074		1,196,198
Current liabilities:				
Current maturities of long-term obligations		72,145		7,373
Notes payable		—		10,000
Purchased power payable		1,878		1,516
Accounts payable		28,446		29,782
Accrued expenses		10,380		10,627
Accrued interest		9,899		11,134
Total current liabilities		122,748		70,432
Deferred credits and other:				
Regulatory liabilities – member rate mitigation		169,001		185,893
Other		22,099		19,662
Total deferred credits and other		191,100		205,555
Commitments and contingencies (see note 14)				
Total	$	1,417,922	$	1,472,185

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Operations

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	2011	2010	2009
Operating revenue	$ 561,989	$ 527,324	$ 341,333
Lease revenue	—	—	32,027
Total operating revenue	561,989	527,324	373,360
Operating expenses:			
Operations:			
Fuel for electric generation	226,229	207,749	80,655
Power purchased and interchanged	112,262	99,421	116,883
Production, excluding fuel	50,410	52,507	22,381
Transmission and other	39,085	35,273	35,444
Maintenance	47,718	46,880	29,820
Depreciation and amortization	35,407	34,242	32,485
Total operating expenses	511,111	476,072	317,668
Electric operating margin	50,878	51,252	55,692
Interest expense and other:			
Interest	45,226	46,570	59,898
Amortization of loss from termination of long-term lease	—	—	2,172
Income tax expense	100	259	1,025
Other – net	220	166	112
Total interest expense and other	45,546	46,995	63,207
Operating margin	5,332	4,257	(7,515)
Nonoperating margin:			
Gain on unwind transaction (see note 2)	—	—	537,978
Interest income and other	268	2,734	867
Total nonoperating margin	268	2,734	538,845
Net margin	$ 5,600	$ 6,991	$ 531,330

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Equities (Deficit)

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	Total equities (deficit)	Accumulated margin (deficit)	Other equities: Donated capital and memberships	Other equities: Consumers' contributions to debt service	Accumulated other comprehensive income
Balance – December 31, 2008	$ (154,602)	$ (146,823)	$ 764	$ 3,681	$ (12,224)
Comprehensive income:					
Net margin	531,330	531,330	—	—	—
Defined benefit plans	2,664	—	—	—	2,664
Total comprehensive income	533,994	531,330	—	—	2,664
Balance – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	—	—	—
Defined benefit plans	192	—	—	—	192
Total comprehensive income	7,183	6,991	—	—	192
Balance – December 31, 2010	386,575	391,498	764	3,681	(9,368)
Comprehensive income:					
Net margin	5,600	5,600			
Defined benefit plans	(2,355)				(2,355)
Total comprehensive income	3,245	5,600	—	—	(2,355)
Balance – December 31, 2011	$ 389,820	$ 397,098	$ 764	$ 3,681	$ (11,723)

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net margin	$ 5,600	$ 6,991	$ 531,330
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,808	37,650	37,084
Amortization of deferred loss (gain) on sale-leaseback – net	—	—	2,172
Deferred lease revenue	—	—	(3,768)
Residual value payments obligation gain	—	—	(3,881)
Interest compounded – RUS Series A Note	8,398	—	—
Interest compounded – RUS Series B Note	6,884	6,499	6,136
Noncash gain on unwind transaction		—	(269,441)
Cash received for member rate mitigation		—	217,856
Noncash member rate mitigation revenue	(18,947)	(23,953)	(12,033)
Changes in certain assets and liabilities:			
Accounts receivable	1,618	1,588	(26,049)
Inventories	1,357	(2,304)	(3,497)
Prepaid expenses	(1,715)	731	(2,783)
Deferred charges	121	1,251	(1,538)
Purchased power payable	362	(1,846)	(5,973)
Accounts payable	(1,336)	(875)	24,825
Accrued expenses	(1,481)	2,800	7,881
Other – net	(70)	555	6,852
Net cash provided by operating activities	38,599	29,087	505,173
Cash flows from investing activities:			
Capital expenditures	(38,746)	(42,683)	(58,388)
Proceeds from restricted investments	56,095	28,143	8,982
Purchases of restricted investments and other deposits and investments		—	(252,798)
Net cash provided by (used in) investing activities	17,349	(14,540)	(302,204)
Cash flows from financing activities:			
Principal payments on long-term obligations	(45,879)	(121,355)	(168,956)
Proceeds from long-term obligations	—	83,300	—
Principal payments on short-term notes payable	(10,000)	—	(12,380)
Proceeds from short-term notes payable	—	10,000	—
Debt issuance cost on bond refunding	—	(2,002)	(246)
Net cash used in financing activities	(55,879)	(30,057)	(181,582)
Net increase (decrease) in cash and cash equivalents	69	(15,510)	21,387
Cash and cash equivalents – beginning of year	44,780	60,290	38,903
Cash and cash equivalents – end of year	$ 44,849	$ 44,780	$ 60,290
Supplemental cash flow information:			
Cash paid for interest	$ 31,441	$ 37,268	$ 51,078
Cash paid for income taxes	130	260	626

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) General Information

Big Rivers Electric Corporation (Big Rivers or the Company), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the Aluminum Smelters). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Management evaluated subsequent events up to and including March 26, 2012, the date the financial statements were available to be issued.

(b) Principles of Consolidation

The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, Big Rivers Leasing Corporation (BRLC). All significant intercompany transactions have been eliminated. BRLC was dissolved July 7, 2009.

(c) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

(d) System of Accounts

Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(Dollars in thousands)

(e) Revenue Recognition

Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, *Leases*, Big Rivers' revenue from the Lease Agreement was recognized on a straight-line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in note 2).

(f) Utility Plant and Depreciation

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted average debt to the accumulated expenditures for qualifying projects included in construction in progress.

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS and KPSC. During 2010, the Company commissioned a depreciation study to evaluate the remaining economic lives of its assets. In 2011, the study was completed and approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

	Jan-Nov 2011	Dec 2011
Electric plant	1.60 – 2.47%	0.50 – 20.22%
Transmission plant	1.76 – 3.24	1.42 – 2.23
General plant	1.11 – 5.62	2.84 – 17.12

For 2011, 2010, and 2009, the average composite depreciation rates were 1.91%, 1.86%, and 1.85%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

(g) Impairment Review of Long-Lived Assets

Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. FASB ASC 360, *Property, Plant, and Equipment*, requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the future cash flows were not sufficient to recover the carrying value of the asset, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to net margin.

(h) Inventory

Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

(i) Restricted Investments

Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see note 9).

(j) Cash and Cash Equivalents

Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

(k) Income Taxes

Big Rivers was formed as a tax-exempt cooperative organization as described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax-exempt status and will be treated as a taxable cooperative.

As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to non-patronage sourced operations are taxable to Big Rivers. Big Rivers files a federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(Continued)

(l) ***Patronage Capital***

As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income.

(m) ***Derivatives***

Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts and, therefore, the contracts are not required to be recognized at fair value in the financial statements.

(n) ***Fair Value Measurements***

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

(Dollars in thousands)

(2) LG&E Lease Agreement

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the Unwind Transaction or Unwind). LG&E and KU, WKEC, and LEM are collectively referred to in the notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

		Unwind gain
Assets received:		
Cash	$	506,675
Coleman scrubber		98,500
Inventory		55,000
Construction in progress		23,074
Utility plant assets		19,679
SO2 allowances		980
Liabilities (assumed) forgiven:		
Economic reserve		(157,000)
Rural economic reserve		(60,856)
Post-retirement benefits liability		(8,768)
Residual value payments obligation		145,251
LEM Settlement Note		15,440
Recognition of (expenses) income:		
Deferred lease income		7,187
Deferred loss from termination of sale/leaseback		(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note		(14,520)
Unwind transaction costs		(18,991)
Other		156
Gain on unwind transaction	$	537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

On July 15, 1998 (Effective Date), a lease was consummated (Lease Agreement), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation (WKEC), a wholly owned subsidiary of LG&E and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

Big Rivers continued to operate its transmission facilities and charged LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement were as follows:

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

c. WKEC paid Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

d. On the Effective Date, Big Rivers received $69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtained the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy Corp.'s retail service for the Aluminum Smelters was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the Monthly Margin Payments).

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs—20% prior to termination of the lease) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. Big Rivers entered into a note payable with LEM for $19,676 (the LEM Settlement Note) to be repaid over the term of the Lease Agreement, with an interest rate at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of $89. For the year 2011, Big Rivers was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as Arbitrage). Pursuant to the New RUS Promissory Note (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

(Dollars in thousands)

(3) Utility Plant

At December 31, 2011 and 2010, utility plant is summarized as follows:

		2011		2010
Classified plant in service:				
Production plant	$	1,706,243	$	1,689,024
Transmission plant		238,738		237,689
General plant		33,744		18,937
Other		543		543
		1,979,268		1,946,193
Less accumulated depreciation		936,355		909,501
		1,042,913		1,036,692
Construction in progress		49,150		54,874
Utility plant – net	$	1,092,063	$	1,091,566

Interest capitalized for the years ended December 31, 2011, 2010, and 2009, was $548, $684, and $133, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2011 and 2010, the Company had approximately $41,449 and $38,000, respectively, related to nonlegal removal costs included in accumulated depreciation.

(Continued)

(Dollars in thousands)

(4) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2011 and 2010 is as follows:

		2011		2010
RUS Series A Promissory Note, stated amount of $523,192, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$	521,250	$	558,731
RUS Series B Promissory Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023		123,049		116,165
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031		83,300		83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.30% and 3.27% in 2011 and 2010, respectively), maturing in June 2013		58,800		58,800
Total long-term debt		786,399		816,996
Current maturities		72,145		7,373
Total long-term debt – net of current maturities	$	714,254	$	809,623

The following are scheduled maturities of long-term debt at December 31:

		Amount
Year:		
2012	$	72,145
2013		79,260
2014		21,661
2015		22,955
2016		231,882
Thereafter		358,496
Total	$	786,399

(a) RUS Notes

On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) Pollution Control Bonds

In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983 (Series 1983 Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

The Series 1983 Bonds are supported by a liquidity facility issued by Credit Suisse First Boston, which was assigned to Dexia Credit in 2006. In addition, the Series 1983 Bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

The Series 1983 Bonds are subject to a maximum interest rate of 13.00%. The December 31, 2011 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) Notes Payable

Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. In March 2011, Big Rivers paid down the $10,000 of borrowings outstanding on the CoBank line of credit at December 31, 2010. The Company had no borrowings outstanding on the lines of credit at December 31, 2011. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,375 and $5,928 at December 31, 2011 and 2010, respectively. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3, and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. On February 25, 2011, a $2,500 CFC line of credit, available to the Company to finance storm emergency repairs and expenses related to electric utility operations, matured.

(d) Covenants

Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' lines of credit with CFC and CoBank require Equity to Asset ratios of 12% and 15%, respectively. Big Rivers' 2011 MFIR was 1.12, its DSCR was 1.47 and the Asset to Equity Ratio was 27%.

(5) Rate Matters

The rates charged to Big Rivers' members consist of a demand charge per kilowatt (kW) and an energy charge per kilowatt hour (kWh) consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Effective September 1, 2011, the Company received approval from the KPSC to base the member rural demand charge on its Maximum Adjusted Net Local Load (as defined in Big Rivers tariff).

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelters in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with a partial offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting, among other things, authority to adjust its rates for wholesale electric service. The KPSC entered an order on November 17, 2011, granting Big Rivers an annual revenue increase of $26,745. One of the intervenors in the case has filed an appeal seeking, among other things, an approximate $6,200 reduction in the revenue relief granted in the order, and will presumably ask that any relief obtained be retroactive to the effective date of the rates approved in the order (September 1, 2011). Big Rivers has also sought rehearing on certain matters raised in the order that could increase Big Rivers' annual revenue by $2,735.

The wholesale rates established for the members nonsmelter large direct-served industrial customers (the Large Industrial Rate) provide the basis for pricing the energy consumed by the Aluminum Smelters.

(Dollars in thousands)

The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per megawatt hour (MWh) determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

(6) Income Taxes

At December 31, 2011, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $32,434 expiring at various times between 2011 and 2031, and an Alternative Minimum Tax Credit Carryforward of approximately $7,138, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2011, 2010, and 2009, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,613, $3,846, and $19,619 in current regular tax expense for the years ended December 31, 2011, 2010 and 2009, respectively.

The components of the net deferred tax assets as of December 31, 2011 and 2010 were as follows:

	2011	2010
Deferred tax assets:		
Net operating loss carryforward	$ 12,812	$ 16,730
Alternative minimum tax credit carryforwards	7,138	6,038
Member rate mitigation	10,326	10,326
Fixed asset basis difference	3,980	10,752
RUS Series B Note	19,689	14,767
Total deferred tax assets	53,945	58,613
Deferred tax liabilities:		
RUS Series B Note	—	—
Bond refunding costs	(9)	(8)
Total deferred tax liabilities	(9)	(8)
Net deferred tax asset (prevaluation allowance)	53,936	58,605
Valuation allowance	(53,936)	(58,605)
Net deferred tax asset	$ —	$ —

(Dollars in thousands)

A reconciliation of the Company's effective tax rate for 2011, 2010, and 2009 follows:

	2011	2010	2009
Federal rate	35.0%	35.0%	35.0%
State rate – net of federal benefit	4.5	4.5	4.5
Permanent differences	0.9	0.5	—
Patronage allocation to members	(40.8)	(38.8)	(35.4)
Tax benefit of operating loss carryforwards and other	0.4	(1.2)	(4.1)
Alternative minimum tax	3.5	3.0	0.2
Effective tax rate	3.5%	3.0%	0.2%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2007 through 2011 and 1996 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2004 through 2011 and years 2001 through 2003, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2011, 2010, or 2009.

(7) Power Purchased

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not reduce the contract limits by more than 12 MW in any year or by more than a total of 72 MW over the lease term. In the event Big Rivers failed to take the minimum requirement during any hour or year, Big Rivers was liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the year ended December 31, 2009, was $51,592 and is included in power purchased and interchanged on the statement of operations.

(8) Pension Plans

(a) Defined Benefit Plans

Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see note 11 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2011 and 2010.

(Dollars in thousands)

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2011 and 2010 follows:

		2011		2010
Benefit obligation – beginning of period	$	28,804	$	25,493
Service cost – benefits earned during the period		1,279		1,289
Interest cost on projected benefit obligation		1,296		1,368
Benefits paid		(481)		(806)
Actuarial loss		845		1,460
Benefit obligation – end of period	$	31,743	$	28,804

The accumulated benefit obligation for all defined benefit pension plans was $25,482 and $21,977 at December 31, 2011 and 2010, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2011 and 2010 follows:

		2011		2010
Fair value of plan assets – beginning of period	$	25,267	$	22,270
Actual return on plan assets		324		2,707
Employer contributions		2,890		1,096
Benefits paid		(481)		(806)
Fair value of plan assets – end of period	$	28,000	$	25,267

The funded status of the Company's pension plans at December 31, 2011 and 2010 follows:

		2011		2010
Benefit obligation – end of period	$	(31,743)	$	(28,804)
Fair value of plan assets – end of period		28,000		25,267
Funded status	$	(3,743)	$	(3,537)

(Continued)

(Dollars in thousands)

Components of net periodic pension costs for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Service cost	$ 1,279	$ 1,289	$ 1,241
Interest cost	1,296	1,368	1,466
Expected return on plan assets	(1,737)	(1,533)	(1,332)
Amortization of prior service cost	14	19	19
Amortization of actuarial loss	461	584	834
Settlement loss	—	—	1,690
Net periodic benefit cost	$ 1,313	$ 1,727	$ 3,918

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2011 and 2010 follows:

	2011	2010
Prior service cost	$ (26)	$ (40)
Unamortized actuarial loss	(11,151)	(9,354)
Accumulated other comprehensive income	$ (11,177)	$ (9,394)

In 2012, $14 of prior service cost and $696 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income (loss) at December 31, 2011 and 2010 follows:

	2011	2010
Prior service cost	$ 14	$ 19
Unamortized actuarial gain (loss)	(1,797)	297
Other comprehensive income (loss)	$ (1,783)	$ 316

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

	2011	2010
Deferred credits and other	$ (3,743)	$ (3,537)

(Continued)

(Dollars in thousands)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2011	2010	2009
Discount rate – projected benefit obligation	4.26%	4.95%	5.59%
Discount rate – net periodic benefit cost	4.95	5.59	6.38
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement Level based on (a) forward-looking rate of return expectations for passively managed asset categories over a 20-year time horizon and (b) historical rates of return for passively managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45%-55%), 15% International Equities (an acceptable range of 10%-20%), and 35% fixed income (an acceptable range of 30%-40%). As of December 31, 2011 and 2010, the investment allocation was 56% and 58%, respectively, in U.S. Equities, 8% and 9%, respectively, in International Equities, and 36% and 33%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi-annually.

(Continued)

(Dollars in thousands)

At December 31, 2011 and 2010, the fair value of Big Rivers' defined benefit pension plan assets by asset category are as follows:

	Level 1	Level 2	December 31, 2011
Cash and money market	$ 2,129	$ —	$ 2,129
Equity securities:			
U.S. large-cap stocks	10,178	—	10,178
U.S. mid-cap stock mutual funds	3,365	—	3,365
U.S. small-cap stock mutual funds	1,666	—	1,666
International stock mutual funds	2,168	—	2,168
Preferred stock	493	—	493
Fixed:			
TIPS bond fund	723	—	723
U.S. government agency bonds	—	1,085	1,085
Taxable U.S. municipal bonds	—	3,258	3,258
U.S. corporate bonds	—	2,630	2,630
Global bond fund	—	305	305
	$ 20,722	$ 7,278	$ 28,000

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ —	$ 1,517
Equity securities:			
U.S. large-cap stocks	9,731	—	9,731
U.S. mid-cap stock mutual funds	2,926	—	2,926
U.S. small-cap stock mutual funds	1,448	—	1,448
International stock mutual funds	2,194	—	2,194
Preferred stock	490	—	490
Fixed:			
TIPS bond fund	161	—	161
U.S. government agency bonds	—	1,843	1,843
Taxable U.S. municipal bonds	—	2,635	2,635
U.S. corporate bonds	—	2,322	2,322
	$ 18,467	$ 6,800	$ 25,267

(Continued)

(Dollars in thousands)

Expected retiree pension benefit payments projected to be required during the years following 2011 are as follows:

		Amount
Years ending December 31:		
2012	$	2,330
2013		4,386
2014		1,799
2015		3,196
2016		3,265
2017 – 2020		10,986
Total	$	25,962

In 2012, the Company expects to contribute $970 to its pension plan trusts.

(b) ***Defined Contribution Plans***

Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $4,464 and $4,389 for the years ended December 31, 2011 and 2010, respectively.

(c) ***Deferred Compensation Plan***

Big Rivers sponsors a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2011 employer contribution was $58 and deferred compensation expense was $81. As of December 31, 2011, the trust asset was $283 and the deferred liability was $202.

(Dollars in thousands)

(9) Restricted Investments

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Amortized costs	Fair values	Amortized costs	Fair values
Cash and money market	$ 12,765	$ 12,764	$ 12,812	$ 12,812
Debt securities:				
U.S. Treasuries	62,073	63,917	60,941	62,582
U.S. government agency	88,324	88,485	143,809	143,922
Total	$ 163,162	$ 165,166	$ 217,562	$ 219,316

Gross unrealized gains and losses on restricted investments at December 31, 2011 and 2010 were as follows:

	2011		2010	
	Gains	Losses	Gains	Losses
Cash and money market	$ —	$ —	$ —	$ —
Debt securities:				
U.S. Treasuries	1,843	—	1,641	—
U.S. government agency	161	—	331	217
Total	$ 2,004	$ —	$ 1,972	$ 217

Debt securities at December 31, 2011 and 2010 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2011		2010	
	Amortized costs	Fair values	Amortized costs	Fair values
In one year or less	$ 43,021	$ 43,092	$ 71,111	$ 71,193
After one year through five years	120,141	122,074	146,451	148,123
Total	$ 163,162	$ 165,166	$ 217,562	$ 219,316

(Dollars in thousands)

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010 were as follows:

	2011		**2010**	
	Less than 12 months		**Less than 12 months**	
	Losses	**Fair values**	**Losses**	**Fair values**
Debt securities:				
U.S. Treasuries	$ —	$ —	$ —	$ —
U.S. government agency	—	—	217	15,783
Total	$ —	$ —	$ 217	$ 15,783

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2011 and 2010 was zero and one, respectively. Since the Company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

(10) Fair Value of Other Financial Instruments

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities,* that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	2011	**2010**
Institutional money market government portfolio	$ 44,844	$ 44,774

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

Big Rivers' long-term debt at December 31, 2011 consists of RUS notes totaling $644,299, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see note 4). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2011, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $86,399.

(Dollars in thousands)

(11) Postretirement Benefits Other than Pensions

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2011	2010	2009
Discount rate – projected benefit obligation	4.29%	4.96%	5.78%
Discount rate – net periodic benefit cost	4.96	5.78	6.32

The health care cost trend rate assumptions as of December 31, 2011 and 2010 were as follows:

	2011	2010
Initial trend rate	7.40%	7.60%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	2011	2010
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (211)	$ (201)
Effect on year end benefit obligation	(1,056)	(1,131)
One-percentage-point increase:		
Effect on total service and interest cost components	254	236
Effect on year end benefit obligation	1,226	1,306

(Dollars in thousands)

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2011 and 2010 follows:

	2011	2010
Benefit obligation – beginning of period	$ 15,864	$ 13,864
Service cost – benefits earned during the period	1,253	1,313
Interest cost on projected benefit obligation	754	743
Participant contributions	160	85
Benefits paid	(611)	(313)
Actuarial loss	620	172
Benefit obligation – end of period	$ 18,040	$ 15,864

A reconciliation of the Company's postretirement plan assets at December 31, 2011 and 2010 follows:

	2011	2010
Fair value of plan assets – beginning of period	$ —	$ —
Employer contributions	451	228
Participant contributions	160	85
Benefits paid	(611)	(313)
Fair value of plan assets – end of period	$ —	$ —

The funded status of the Company's postretirement plan at December 31, 2011 and 2010 follows:

	2011	2010
Benefit obligation – end of period	$ (18,040)	$ (15,864)
Fair value of plan assets – end of period	—	—
Funded status	$ (18,040)	$ (15,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Service cost	$ 1,253	$ 1,313	$ 878
Interest cost	754	743	464
Amortization of prior service cost	17	17	17
Amortization of actuarial (gain)	—	—	(17)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$ 2,055	$ 2,104	$ 1,373

(Continued)

(Dollars in thousands)

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income (loss) at December 31, 2011 and 2010 follows:

		2011		2010
Prior service cost	$	(130)	$	(147)
Unamortized actuarial gain (loss)		(385)		235
Transition obligation		(31)		(62)
Accumulated other comprehensive income (loss)	$	(546)	$	26

In 2012, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2011 and 2010 follows:

		2011		2010
Prior service cost	$	17	$	18
Unamortized actuarial loss		(620)		(172)
Transition obligation		31		30
Other comprehensive loss	$	(572)	$	(124)

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

		2011		2010
Accounts payable	$	(762)	$	(600)
Deferred credits and other		(17,278)		(15,264)
Net amount recognized	$	(18,040)	$	(15,864)

Expected retiree benefit payments projected to be required during the years following 2011 are as follows:

		Amount
Year:		
2012	$	761
2013		963
2014		1,148
2015		1,277
2016		1,383
2017 – 2021		8,754
Total	$	14,286

(Continued)

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan, which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $579 and $391 at December 31, 2011 and 2010, respectively. The postretirement expense recorded was $191, $21, and $45 for 2011, 2010, and 2009, respectively, and the benefits paid were $3, $5, and $78 for 2011, 2010, and 2009, respectively.

(12) Related Parties

For the years ended December 31, 2011, 2010, and 2009, Big Rivers had tariff sales to its members of $151,472, $151,001, and $125,826, respectively. In addition, for the years ended December 31, 2011, 2010, and 2009, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of $306,420, $281,473, and $167,885, respectively.

At December 31, 2011 and 2010, Big Rivers had accounts receivable from its members of $40,314 and $36,636, respectively.

(13) Commitments and Contingencies

Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Big Rivers plans to seek KPSC approval for its 2012 environmental compliance plan (ECP) in an April 2012 filing. This ECP will consist of $283,490 of capital projects, primarily for a new scrubber at the D.B. Wilson station and a new selective catalytic reduction facility at the R.D. Green station, and certain additional operations and maintenance costs. The purpose of the ECP is to allow Big Rivers to comply, in the most cost-effective manner, with the U.S. Environmental Protection Agency Cross-State Air Pollution Rule, and Mercury and Other Air Toxics Standards. Among other things, the ECP filing will seek to recover the costs of the ECP through an amendment to Big Rivers' existing environmental surcharge tariff rider, an automatic cost-recovery mechanism that is similar in function to the fuel adjustment clause. The regulatory process is expected to last six months after the filing date.

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's
Initial Request for Information
Dated May 21, 2012

June 1, 2012

Item 38) *Please provide:*

a. all data, work papers, and source documents, and calculations used in developing BREC's long-term and short-term cost rates in the ECP;

b. all details, including calculations, amortization tables, and work sheets, related to the amounts for unamortized debt issuance balance and unamortized premium/discount and issuance expenses;

c. details of the term loan and senior notes, including

  i. issuance date,

  ii. debt amounts,

  iii. copies of lending agreements and provisions,

  iv. copies of all documentation that indicate the pricing and interest rate on the term loan and senior notes;

d. all information available on underwriter, underwriting spread, loan placement documents, and/or other information and source documents; and

e. provide the data and work papers in (a) – (d), in both hard copy and electronic (Microsoft Excel) formats, with all data and formulae intact.

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
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RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC
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Response)

a. Please reference the "Build Case", "Partial Build Case", "Buy Case", "Build No Smelter Load", and "Buy No Smelter Load" financial model Excel files provided in Big Rivers' response to KIUC's motion to dismiss. Also reference the Excel files Big Rivers provided to KIUC on the CD filed May 29, 2012, in response to the May 11, 2012, letter from KIUC's counsel to Big Rivers' counsel.

b. Please reference the Debt tab (lines 7 through 12 and line 124) in the "Build Case" financial model Excel file provided in Big Rivers' response to KIUC's motion to dismiss.

c. Not applicable at this time.

d. Not applicable at this time.

e. See responses to Items 38a and 38b above.

Witness) Mark A. Hite

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
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Item 39) ***Reference the Berry testimony, exhibit 2, p. 2 of 2. Confirm that this indicates additional O & M costs of $15.73 million to be incurred as of 2023.***

a. Please confirm whether this means that by 2023, the additional O & M costs made necessary as a result of the projects which are the subject of the instant filing will be incurred annually each and every year thereafter.

b. Please state whether the total projected costs $286.14 million for the proposed projects includes the $15.73 million of projected O & M costs as set forth in subpart a., above.

Response) Confirmed. In 2023, the estimated additional O&M cost made necessary by these projects is estimated to be $15.73 million. The additional O&M costs were estimated in 2011 dollars and adjusted for inflation at 2.5% each year through 2023.

a. The additional O&M costs will be incurred annually each and every year thereafter adjusted for labor and commodity market supply and demand as well as the rate of inflation.

b. The $286.14 million shown in the total cell of the far right column in Exhibit Berry – 2 on page 1 of 2 includes capital cost only. None of the estimated $15.73 O&M expense is included in that total.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
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Item 40) *Reference the Berry testimony in general and at page 6 in particular. Is the Henderson generating unit an integral part of the applicant's generation fleet for planning and system wide operational purposes?*

Response) Yes.

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

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Item 41) *Reference the Berry testimony at p. 11 of 33. Describe in detail how the consulting services of S&L were chosen. The response should include, but not necessarily be limited to, the following:*

a. whether an RFP was issued;
b. any criteria used in the decision making process, whether by RFP or otherwise;
c. who participated in the decision making process;
d. any affiliation that S&L may have with BREC and/or any other G & T or RECC;
e. the cost for the services; and
f. when the decision was made.

Response)

a. Proposals were solicited from Sargent & Lundy and Burns and McDonnell.
b. Vender selection was based on the best evaluated bid which included scope of work and lowest cost.
c. The vice president of power production and the plant manager at Sebree participated in the decision making process.

d. There is no affiliation between S&L and Big Rivers and/or any other G&T or RECC except engineering and consulting services contracted between the parties.

e. See Big Rivers' response to Items 28 and 29 of the Attorney General's Initial Data Requests.

f. The decision to utilize S&L for the compliance study was finalized on April 19, 2011

Witness) Robert W. Berry

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

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June 1, 2012

Item 42) ***Reference the Berry testimony at pages 12 and 13. Does the cost allocation in any way alter the allocation agreed upon by the smelters and the applicant as proposed to the Commission in the Unwind transaction?***

Response) Yes. The Public Service Commission ("Commission") granted approval of Big Rivers' existing environmental compliance plan and current environmental surcharge tariff in an Order dated June 25, 2008, in Case No. 2007-00460,[1] as part of the unwind transaction. On page 7 of that Order, the Commission explained its approval of Big Rivers' proposal to allocate costs based on kWh sales:

> The Commission notes that Big Rivers has requested to use kWh sales instead of revenues to determine the CESF and BESF. As noted by Big Rivers, the costs to be recovered at this time through the proposed surcharge mechanism are variable expenses. The Commission agrees with Big Rivers that an energy charge is more appropriate, given the current situation, than the use of a percentage of revenues approach, as authorized for other utilities having an environmental surcharge.

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[1] In the Matter of: The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff

Thus, the current "per-kWh" cost allocation methodology was proposed by Big Rivers and approved by the Commission because it was appropriate given that the existing environmental compliance plan included no capital costs. Since Big Rivers' 2012 environmental compliance plan includes capital costs, it is now appropriate for the environmental surcharge to allocate costs on a "percentage of Total Adjusted Revenue" basis, consistent with the environmental surcharge mechanisms of other utilities in Kentucky.

Witness) Mark A. Hite

BIG RIVERS ELECTRIC CORPORATION

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN,
FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST
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Dated May 21, 2012

June 1, 2012

Item 43) ***Reference the Berry testimony at page 13, and the Application in general. Describe the revenue items specified in the contracts between Big Rivers and Kenergy which are to be adjusted.***

Response) The majority of these items specified are described in Article 4, Charges and Credits, of the Wholesale Electric Service Agreements dated July 1, 2009, by and between Big Rivers Electric Corporation and Kenergy Corp., for Century and for Alcan. Other items are described in Section 5.1 and in Section 16.5.1. All of these sections are identical for both smelter agreements. An excerpt of these sections that describe the specified items is attached.

Witness) John Wolfram

3.2 Scheduling. Big Rivers acknowledges and agrees that:

(a) Century shall not be required to schedule Base Monthly Energy, Buy-Through Energy or Back-Up Energy but shall use reasonable commercial efforts to inform Big Rivers promptly of any material change in Century's intended usage; and

(b) In accordance with the OATT, Century shall schedule and arrange with Kenergy and Big Rivers no later than 9:00 A.M. on the Business Day immediately preceding the day or days of delivery pursuant to the Century Retail Agreement, or as otherwise mutually agreed by the Parties, the delivery of Interruptible Energy and Market Energy.

ARTICLE 4

CHARGES AND CREDITS

4.1 Monthly Charge. Kenergy shall pay Big Rivers the following (the "Monthly Charge") for the Electric Services provided or made available under this Agreement:

4.1.1 the Base Energy Charge calculated pursuant to Section 4.2,

4.1.2 plus the Supplemental Energy Charge calculated pursuant to Section 4.3,

4.1.3 plus the Back-Up Energy Charge calculated pursuant to Section 4.4,

4.1.4 plus the Transmission Charge pursuant to Section 4.5,

4.1.5 plus the Excess Reactive Demand Charge calculated pursuant to Section 4.6,

4.1.6 plus the TIER Adjustment Charge calculated pursuant to Section 4.7,

4.1.7 plus the FAC Charge calculated pursuant to Section 4.8.1,

4.1.8 plus the Non-FAC Purchased Power Adjustment Charge calculated pursuant to Section 4.8.2,

4.1.9 plus the Environmental Surcharge calculated pursuant to Section 4.8.3,

4.1.10 plus or minus the monthly amortization of the Restructuring Amount calculated pursuant to Section 16.5,

4.1.11 less the Rebate calculated pursuant to Section 4.9,

4.1.12 less the Equity Development Credit calculated pursuant to Section 4.10,

4.1.13 plus the Surcharge calculated pursuant to Section 4.11,

4.1.14 [Reserved],

4.1.15 less the credits calculated pursuant to Section 4.13,

4.1.16 plus or minus other amounts calculated pursuant to Section 4.14, and

4.1.17 plus taxes calculated pursuant to Section 4.15.

4.2 Base Energy Charge. For any Billing Month, the "Base Energy Charge" shall be the sum of:

(a) the product of Base Fixed Energy and the Base Rate; and

(b) the product, whether positive or negative, of the Base Variable Energy and the Base Variable Rate.

Sample calculations of the Base Energy Charge at different load factors are set forth in Exhibit A.

4.3 Supplemental Energy Charge. For any Billing Month, the "Supplemental Energy Charge" shall be the sum of the charges, whenever determined, for the Interruptible Energy Charge, the Buy-Through Energy Charge, and the Market Energy Charge as calculated below.

4.3.1 The "Interruptible Energy Charge" shall be the product of (i) the quantity of Interruptible Energy metered at the Point of Delivery during the Billing Month and (ii) the rate or rates for Interruptible Energy with respect to such Billing Month.

4.3.2 The "Buy-Through Energy Charge" shall be the sum of:

(a) the product of (i) the quantity of Buy-Through Energy metered at the Point of Delivery during the Billing Month and (ii) the quotient of (A) the actual rate or rates for such Buy-Through Energy that Big Rivers pays to a Third Party Supplier over (B) 1.00 less the loss factor set forth in the OATT; and

(b) all other charges that Big Rivers may be required to pay in connection with Buy-Through Energy, including (i) any and all separate charges for transmission services and related services, whenever incurred (including financial transmission rights, transmission congestion charges and similar costs or expenses), provided by a Third Party whose transmission system is used to transmit Buy-Through Energy purchased from a Third Party to a point at which Big Rivers' transmission system is interconnected with such system, and (ii) any amount payable upon termination by reason of default of the supply arrangements between Big Rivers and Third Party Suppliers, net of recoveries by Big Rivers from such suppliers with respect to the supply of Buy-Through Energy to Kenergy for resale to Century.

4.3.3 The "Market Energy Charge" shall be the sum of:

(a) the product of (i) the quantity of Market Energy metered at the Point of Delivery during the Billing Month and (ii) the quotient of (A) the actual rate or rates for such Market Energy agreed to between Big Rivers and Kenergy, over (B) 1.00 less the loss factor set forth in the OATT; and

(b) all other charges that Big Rivers may be required to pay to Third Party Suppliers in connection with Market Energy, including (i) any and all separate charges for transmission services and related services, whenever incurred (including financial transmission rights, transmission congestion charges and similar costs or expenses), provided by a Third Party whose transmission system is used to transmit Market Energy purchased from a Third Party to a point at which Big Rivers' transmission system is interconnected with such system and (ii) any amount payable upon termination by reason of default of the supply arrangements between Big Rivers and Third Party Suppliers, net of recoveries by Big Rivers from such suppliers with respect to the supply of Market Energy to Kenergy for resale to Century.

4.4 Back-Up Energy Charge. For any Billing Month, the "Back-Up Energy Charge" shall be the sum of the Hourly charges for Back-Up Energy calculated as follows:

4.4.1 The charge for Back-Up Energy supplied in any Hour shall equal the following:

(a) to the extent the Back-Up Energy was supplied from generating facilities owned or controlled by Big Rivers and located within Big Rivers' transmission control area, the charge shall be the product of (i) the amount of such Back-Up Energy, and (ii) the quotient of (A) a price equal to the greater of (1) the real time Hourly locational marginal price at Big Rivers' interface with the Midwest Independent System Operator (or such other pricing reference point that shall be mutually agreed upon by the Parties and Big Rivers), and (2) Big Rivers' system lambda; divided by (B) 1.00 minus the loss factor set forth in the OATT;

(b) to the extent the Back-Up Energy was not supplied pursuant to Section 4.4.1(a), the charge shall be the product of (i) the amount of such Back-Up Energy, and (ii) the quotient of (A) a price equal to 110% of the highest Hourly all inclusive cost incurred by Big Rivers to acquire any Energy, including such Back-Up Energy, and the separate cost, if any, whenever determined, of transmission services and related services provided by a Third Party whose transmission system is used to transmit Back-Up Energy purchased from a Third Party to a point at which Big Rivers' transmission system is interconnected with such system and including any imbalance charges or other costs arising from the failure of a Third Party Supplier to deliver Energy that it is obligated to deliver; divided by (B) 1.00 minus the loss factor set forth in the OATT; and

(c) to the extent that the amount of Back-Up Energy required by Kenergy for resale to Century during any Hour exceeds the sum of (x) ten MW per Hour, (y) the amount of Back-Up Energy resulting from deemed interruption of Scheduled Interruptible Energy pursuant to Section 2.3.2(a)(iii), and (z) the amount of Back-Up Energy resulting from the non-delivery of Market Energy purchased by a Third Party Supplier, then the charge for the excess amount of Back-Up Energy shall be the product of (i) the excess amount of Back-Up Energy, and (ii) the greater of (A) $250 per MWh and (B) the price set forth in Section 4.4.1(b)(ii).

Sample calculations of the Back-Up Energy Charge are set forth in Exhibit A.

4.4.2 If during any Hour Big Rivers provides Back-Up Energy to Kenergy for resale to Century and "Back-Up Energy" (as defined in the Alcan Wholesale Agreement) to Kenergy for resale to Alcan, then the provisions of Section 4.4.1 shall apply to a proportional number of MW of Back-Up Energy for resale to each of Century and Alcan.

4.5 Charge for Transmission Services and Ancillary Services. For any Billing Month, the charge for transmission services and ancillary services (the "Transmission Charge") shall be the sum of the charges, calculated in accordance with the OATT, for Transmission Services for (a) Base Monthly Energy that are unbundled from the Large Industrial Rate, if any; and (b) Supplemental Energy.

4.6 Excess Reactive Demand Charge. For any Billing Month, the "Excess Reactive Demand Charge", if any, shall be the product of $0.1433 and the amount, expressed in kilovars, of the difference, if positive, between:

(a) the maximum metered reactive demand of Century during the Billing Month, and

(b) an amount of kilovars equal to the sum of:

(i) the product of (A) 0.4843, and (B) the maximum hourly demand during a Billing Month, denominated in kilowatts, associated with Base Monthly Energy, Interruptible Energy, Market Energy, "Market Energy" under the Century Retail Agreement that is purchased by Kenergy from Third Party Suppliers for resale to Century, and Back-Up Energy provided by Big Rivers to Kenergy for resale to Century, but less the amount of such Interruptible Energy, Market Energy or Back-Up Energy that was purchased by Big Rivers from Third Parties, and

(ii) 74,005.

4.7 TIER Adjustment Charge.

4.7.1 The "TIER Adjustment Charge" shall be, for any Fiscal Year, the amount that is the product of the Applicable Percentage and the TIER Adjustment if, and only if, such TIER Adjustment is a positive amount; *provided, however*, that in no case will the TIER Adjustment Charge for any Fiscal Year exceed the amount that is the product of the Base Fixed Energy and the maximum additional charge per MWh set forth below for the applicable Fiscal Year:

Fiscal Years	Maximum Additional Charge
2008-2011	$1.95 per MWh
2012-2014	$2.95 per MWh
2015-2017	$3.55 per MWh
2018-2020	$4.15 per MWh
2021-2023	$4.75 per MWh

If the TIER Adjustment shall be negative, there will be an Excess TIER Amount and no TIER Adjustment Charge.

4.7.2 Prior to each Fiscal Year, Big Rivers shall estimate both the TIER Adjustment and, if the TIER Adjustment is positive, the TIER Adjustment Charge based on the Budget for such Fiscal Year. Big Rivers shall collect such estimated amount from Kenergy in equal monthly installments as part of the Monthly Charge for each Billing Month during the applicable Fiscal Year.

4.7.3 Within 45 days following the end of the first, second and third fiscal quarters of each Fiscal Year beginning with the first fiscal quarter after the first anniversary of this Agreement, Big Rivers shall again estimate the TIER Adjustment and the corresponding amount of the TIER Adjustment Charge based on a comparison of the Budget and year-to-date results of operations, and shall calculate a modified amount to be collected from, or refunded as a credit to, the Monthly Charge to Kenergy with respect to service to Century during the remaining portion of the Fiscal Year, including any amounts necessary to address any estimated under- or over-collection of the TIER Adjustment Charge from Kenergy with respect to service to Century as compared to the Budget during the remainder of the Fiscal Year. Big Rivers shall collect or credit such modified amount from Kenergy pursuant to this Agreement in equal monthly installments as part of the Monthly Charge for the remaining Billing Months of the subject Fiscal Year.

4.7.4 As soon as reasonably practicable but no later than 120 days after the end of each Fiscal Year, Big Rivers shall calculate the TIER Adjustment and TIER Adjustment Charge for such Fiscal Year. The TIER Adjustment Charge for such Fiscal Year shall be compared to the aggregate amounts paid by Kenergy in respect of the estimated TIER Adjustment Charge for such Fiscal Year, and the difference between such amounts shall be included as a charge or credit, as applicable, in the Monthly Charges for the fourth Billing Month of the next Fiscal Year.

4.7.5 The "<u>TIER Adjustment</u>" shall be the amount of incremental revenue, whether positive or negative, calculated with respect to each Fiscal Year after determination of Net Margins for such Fiscal Year (excluding amounts payable by Kenergy with respect to or relating to the revenue that results from the TIER Adjustment Charge and the "TIER Adjustment Charge" as defined in the Alcan Wholesale Agreement), that is necessary for Big Rivers to receive in order to achieve a TIER of 1.24 for such Fiscal Year; *provided, however*, that if the Service Period commences or terminates on a date other than the first or last day of a Fiscal Year and to give effect to this Section 4.7.5, the TIER Adjustment will be calculated on an Hourly basis only with respect to the partial period of the first, second or final Fiscal Year of the Service Period, as applicable. The determination of the TIER Adjustment shall be subject to the following:

(a) It shall be assumed that: Big Rivers shall have generated additional revenue from service to the Members for resale to the Non-Smelter Ratepayers as if Big Rivers had increased the Non-Smelter Member Rates by a weighted average of 2.00% in 2010, another 2.50% in 2018 and another 4.00% in 2021 if and to the extent Big Rivers had not prior to or during the year of the calculation increased the Non-Smelter Member Rates by at least such amounts. The revenues from any roll-in of the costs associated with costs recovered under the FAC, the Environmental Surcharge Rider or the Regulatory Account that are incorporated into base rates comprising a portion of the Non-Smelter Member Rates will not constitute an increase in the Non-Smelter Member Rates for purposes of this clause (a), and the revenues attributable to any such roll-in will be excluded in calculating the percentage of any increases in the Non-Smelter Member Rates. The expiration or termination of Big Rivers' Member Discount Adjustment Rider shall be deemed to be an increase in the Non-Smelter Member Rates for purposes of this clause (a), without regard to whether such expiration or termination occurs prior to, on or after the Effective Date.

(b) It shall be assumed that: If a Member provides electric service to a New Ratepayer with a Firm demand in excess of 15 MW, such Member shall have paid to Big Rivers for wholesale Energy purchased and resold to the New Ratepayer at a price equal to the greater of: (i) the amount paid for such service and (ii) an amount calculated for the same period equal to (A) a rate, expressed in dollars per MWh, resulting from the application of the Large Industrial Rate to a load with the New Ratepayer's load factor, plus $0.25 per MWh, *plus* (B) the sum of the FAC Factor, the Environmental Surcharge Factor, and the Non-FAC Purchased Power Adjustment Factor (each calculated on a per MWh basis), *plus* (C) the Surcharge (the Surcharge being calculated on an amount per MWh based on Base Fixed Energy for such Fiscal Year) set forth in Section 4.11, *plus* (D) amounts corresponding to the amount per MWh paid by Kenergy during the same period for the TIER Adjustment Charge. If a Member provides electric service to a New Ratepayer with a Firm demand of 15 MW or less, such Member shall have paid to Big Rivers for wholesale Energy purchased and resold to the New Ratepayer at a price equal to the sum of: (i) the Large Industrial Rate, and (ii) the sum of the FAC Factor, the Environmental Surcharge Factor, and the Non-FAC Purchased Power Adjustment Factor (each calculated on a per MWh basis). For purpose of this clause (b), the revenues produced by any surcharge with respect to a New Ratepayer similar to the Surcharge or the "Surcharge" under the Alcan Retail Agreement will be assumed to accrue solely to the benefit of the Non-Smelter Ratepayers except to the extent such surcharge is paid by or imputed to a New Ratepayer pursuant to subclause (A) of this clause (b). The assumptions contained in this clause (b) shall not apply with respect to a New Ratepayer that first interconnects with Big Rivers' transmission system during the last three Fiscal Years of the Service Period or following notice of termination of this Agreement or the Alcan Retail Agreement.

(c) It shall be assumed that: Big Rivers' interest expense shall have been reduced by the product of (i) Big Rivers' average effective interest rate for borrowed money for the prior Fiscal Year, and (ii) the aggregate amount of any patronage capital retired by Big Rivers to its Members during the Service Period (other than any distribution from the Rural Economic Reserve, the Economic Reserve or the Transition Reserve or relating to the Surcharge or the "Surcharge" under the Alcan Wholesale Agreement), from and after the date of such retirement.

(d) It shall be assumed that: Interest on construction work-in-progress relating to the construction of new electric generating facilities or transmission facilities shall have been capitalized by Big Rivers if it has the right to elect to do so or it is obligated to capitalize such interest under Accounting Principles unless a Governmental Authority has approved the inclusion of such interest expenses in Big Rivers' revenue requirements for rate-making purposes or otherwise approved a surcharge for collecting such interest expenses.

(e) If Big Rivers acquires or constructs non-peaking electric generating facilities alone or with others ("New Facilities"), Big Rivers' interest expenses shall not include the interest imputed on the debt relating to the New Facilities ("Imputed Interest"); *provided, however*, that if a Governmental Authority has approved the inclusion of such generating facilities in Big Rivers' revenue requirements for rate-making purposes or otherwise approved a surcharge to provide for the recovery of the costs of such New Facilities, then actual interest expense with respect to such New Facilities shall be included in the TIER calculation to the extent recovery is permitted; *provided, further*, that this clause (e) may not cause the TIER Adjustment to become negative. For purposes of determining Imputed Interest, it shall be assumed that the New Facilities were financed 80% with debt and 20% with equity. Imputed Interest shall equal the product of (i) the weighted average interest rate on Big Rivers' debt for the Fiscal Year, and (ii) the amount of debt equal to 80% of the capital invested in the New Facilities.

(f) It shall be assumed that: The Rural Economic Reserve, the Economic Reserve and the Transition Reserve shall not generate any revenue or tax liability and the application of funds from the Rural Economic Reserve, the Economic Reserve or the Transition Reserve shall not result in any change in the Net Margins of Big Rivers.

(g) It shall be assumed that: Big Rivers shall have made no payment for damages or indemnification to or for the benefit of a Smelter with respect to the provision of Electric Services or "Electric Services" as defined in the Alcan Wholesale Agreement.

(h) It shall be assumed that: Big Rivers shall have paid no criminal penalties with respect to its acts or omissions other than criminal penalties that a Governmental Authority has approved the inclusion of in Big Rivers' revenue requirements for rate-making purposes or otherwise approved a surcharge for collecting such penalties.

(i) It shall be assumed that: Big Rivers shall have received no proceeds from the sale of Energy to the wholesale market pursuant to Section 4.13.3 or the corresponding section of the Alcan Wholesale Agreement.

(j) It shall be assumed that: Big Rivers shall have incurred no expenses that are impermissible for inclusion in rates of electric generation and transmission cooperative utilities subject to the jurisdiction of the KPSC for rate-making purposes (currently including advertising expenses, branding expenses, charitable contributions and lobbying expenses) or specifically disallowed for rate making purposes by a Governmental Authority; *provided, however*, that denial by a Governmental Authority of expense recovery through the FAC or the Environmental Surcharge Rider shall not constitute an expense that is impermissible for inclusion in rates if the nature of such expense is recoverable in base rates.

(k) It shall be assumed that: There are no revenues and expenses associated with non-regulated businesses of Big Rivers.

(l) It shall be assumed that: No interest is paid pursuant either to Section 5.3 or Section 5.4 or pursuant to the corresponding sections of the Alcan Wholesale Agreement.

(m) It shall be assumed that: No amounts have been or are payable with respect to Excess Reactive Demand Charges or with respect to "Excess Reactive Demand Charges" under the Alcan Wholesale Agreement.

(n) It shall be assumed that: No administrative fee shall have been received by Big Rivers as a result of any Surplus Sales, Undeliverable Energy Sales or Potline Reduction Sales or sales of Energy pursuant to the corresponding sections of the Alcan Wholesale Agreement.

(o) Additional costs related to a change in Big Rivers' depreciation rates may not be included in the calculation of the TIER Adjustment unless such change has been approved, consented to or accepted by the KPSC or, if the KPSC no longer has jurisdiction over Big Rivers, by the RUS or any other Governmental Authority having jurisdiction over such change, if any.

(p) It shall be assumed that: The amortization of any Restructuring Amount is zero.

4.7.6 Any proceeds received or transaction costs prepaid by Big Rivers as part of or in connection with the consummation of the Unwind Transaction shall be disregarded for purposes of computing the TIER Adjustment Charge for the Fiscal Year in which the Unwind Transaction occurs.

4.8 Adjustable Charges.

4.8.1 The "FAC Charge" shall be the product of the FAC Factor (expressed in dollars per MWh) and Base Monthly Energy.

4.8.2 The "Non-FAC Purchased Power Adjustment Charge" shall be the product of the Non-FAC Purchased Power Adjustment Factor (expressed in dollars per MWh) and Base Monthly Energy.

4.8.3 The "Environmental Surcharge" shall be the product of the Monthly Environmental Surcharge Factor (expressed in dollars per MWh) and Base Monthly Energy.

4.9 Rebate. If there is an Excess TIER Amount in any Fiscal Year and Big Rivers elects to implement a rebate to its Members in respect thereof, then no later than the first day of the fifth month of the following Fiscal Year, Big Rivers will credit to Kenergy for further credit to Century an amount (the "Rebate") equal to the product of:

(i) the Excess TIER Amount, and

(ii) a fraction:

(1) the numerator of which is the Base Fixed Energy for such Fiscal Year, and

(2) the denominator of which is the sum during the applicable Fiscal Year of (A) Big Rivers' aggregate sales of Energy to Members for resale to Non-Smelter Ratepayers, (B) the Base Fixed Energy, and (C) the aggregate amount of "Base Fixed Energy" as defined in the Alcan Retail Agreement (without regard to whether the Alcan Retail Agreement is then in effect).

4.10 Equity Development Credit. If there is an Excess TIER Amount in any Fiscal Year and Big Rivers does not elect to implement a rebate to its Members, then no later than the first day of the fifth month of the following Fiscal Year, Big Rivers will credit against the next Monthly Charge an amount (the "Equity Development Credit") equal to the product of:

(i) the Excess TIER Amount, and

(ii) a fraction:

(1) the numerator of which is the Base Fixed Energy for such Fiscal Year, and

(2) the denominator of which is the sum during the applicable Fiscal Year of (A) Big Rivers' aggregate sales of Energy to Members for resale to Non-Smelter Ratepayers, (B) the Base Fixed Energy, and (C) the aggregate amount of "Base Fixed Energy" as defined in the Alcan Retail Agreement (without regard to whether the Alcan Retail Agreement is then in effect).

Notwithstanding the above, the Equity Development Credit for any Fiscal Year may not exceed an amount which would cause the charge for Base Fixed Energy (including Energy curtailed pursuant to Section 4.13.2 or sold to Third Parties pursuant to Section 4.13.3 as Economic Sales, Section 10.1 as Surplus Sales, Section 10.2 as Undeliverable Energy Sales or Section 10.3 as Potline Reduction Sales) less the Equity Development Credit for such Fiscal Year on a per MWh basis to be less than (A) the Large Industrial Rate for a customer with a 98% load factor *plus* (B) the sum of the FAC Factor, the Environmental Surcharge Factor and the Non-FAC Purchased Power Adjustment Factor (each calculated on a per MWh basis).

4.11 Surcharge. In addition to any other amounts payable under this Agreement, and notwithstanding anything in this Agreement to the contrary, Kenergy shall pay a surcharge (the "Surcharge") equal to the sum of the following:

(a) As applicable:

(i) $241,472 each Billing Month from the Effective Date through and including December, 2011;

(ii) $344,960 each Billing Month from January, 2012 through and including December, 2016;

(iii) $481,188 each Billing Month from January, 2017 through the expiration of the stated Term of this Agreement; *plus*

(b) For any Billing Month, the product of (i) Base Fixed Energy and (ii) $0.60 per MWh; *plus*

(c) For any Billing Month, the product of (i) Base Fixed Energy and (ii) the number of cents per MW per Hour (which number shall not exceed 60 or be less than zero) that Big Rivers' projected annual average costs per MWh for fuel consumed by Big Rivers in its coal-fired generation as set forth in its Budget are greater than the amounts set forth on Schedule 4.11(c), in each case, for that Fiscal Year relating to such Billing Month. Big Rivers shall within 45 days following the end of each fiscal quarter compute its actual costs per MWh for fuel consumed by Big Rivers' coal-fired generation in each Billing Month for such fiscal quarter and shall calculate (on a fiscal-year-to-date basis in a manner consistent with this Section 4.11(c)) an additional amount to be paid by or credited to Kenergy based on such actual costs incurred for fuel consumed compared to the amounts set forth in the Budget for such Billing Months; *provided*, any additional amounts to be paid by or credited to Kenergy shall be applied to amounts due for the remainder of the Fiscal Year under this Section 4.11(c). Within 120 days of the end of each Fiscal Year, an additional amount shall be credited to Kenergy if necessary so that the total amounts paid pursuant to this Section 4.11(c) for such Fiscal Year shall not exceed an amount equal to the product of Base Fixed Energy for such Fiscal Year and 60 cents per MW per Hour; such amount shall be included as a credit, if applicable, in the Monthly Charges for the fourth Billing Month of the next Fiscal Year; *minus*

(d) For each of the first 96 Billing Months, $113,412.

The obligation of Kenergy to pay the Surcharge will cease to accrue upon the termination of this Agreement. Sample calculations of the Surcharge under Section 4.11(c) are set forth in Exhibit A.

4.12 [Reserved]

4.13 Credits.

4.13.1 Surplus Sales, Undeliverable Energy Sales and Potline Reduction Sales. For any Billing Month, Big Rivers shall credit Kenergy (a) the Net Proceeds of any Surplus Sales pursuant to Section 10.1 to the extent of the Avoidable Base Charge; and (b) the amount of Net Proceeds of any Undeliverable Energy Sales or Potline Reduction Sales to which Kenergy is entitled pursuant to Section 10.2 or Section 10.3, respectively, less $0.25 per MWh as Big Rivers' administrative fee in each case. Sample calculations of the Net Proceeds from Surplus Sales, Undeliverable Energy Sales and Potline Reduction Sales that would be credited to Kenergy are set forth in Exhibit A.

4.13.2 Curtailment of Purchased Power. For any Billing Month, Big Rivers will credit Kenergy for any Hour during such Billing Month an amount equal to the product of

(a) the Market Reference Rate during such Hour, and (b) the amount of Base Demand per Hour curtailed, if any, during such Hour in an amount and for a duration mutually agreed among Big Rivers, Kenergy and Century pursuant to this Section 4.13.2 and the corresponding section of the Alcan Wholesale Agreement. If both Century and Alcan agree to the curtailment of the delivery of Base Demand per Hour pursuant to this Section 4.13.2 of the Century Retail Agreement and the corresponding section of the Alcan Retail Agreement, Century and Alcan must notify Big Rivers and Kenergy as to whose curtailment shall take precedence. If Big Rivers is not notified as to whose curtailment shall take precedence, the Smelter whose curtailment is largest shall take precedence, and if the amount of curtailment by each Smelter is the same, then the Smelter whose curtailment notice was received by Big Rivers first shall take precedence. Sample calculations of credit that would be due to Kenergy for curtailment of purchased power are set forth in Exhibit A.

4.13.3 Economic Sales. For any Billing Month, Big Rivers will credit Kenergy 75% of the Net Proceeds that Big Rivers receives in respect of the curtailment of the delivery of Base Demand per Hour in an amount and for a duration mutually agreed among Big Rivers, Kenergy and Century if Big Rivers sells such curtailed Base Demand per Hour to the wholesale Energy market ("Economic Sales"); *provided*, that unless otherwise agreed among Big Rivers, Kenergy and Century, (a) the amount of Base Demand per Hour curtailed by Kenergy on behalf of Century may not exceed 100 MW per Hour, (b) the number of curtailments each year shall be limited to twelve, and (c) each curtailment may not last longer than four Hours, and *provided further*, that Big Rivers shall have no obligation to make Economic Sales until after Big Rivers first sells all of its own surplus Energy to the wholesale Energy market. If Kenergy on behalf of both Century and Alcan agree to the curtailment of the delivery of Base Demand per Hour pursuant to this Section 4.13.3 and the corresponding section of the Alcan Wholesale Agreement, Century and Alcan must notify Big Rivers and Kenergy as to whose curtailment shall take precedence. If Big Rivers is not notified as to whose curtailment shall take precedence, the Smelter whose curtailment is largest shall take precedence, and if the amount of curtailment by each Smelter is the same, then the Smelter whose curtailment notice was received by Big Rivers first shall take precedence. Sample calculations of the portion of the Net Proceeds from Economic Sales that would be credited to Kenergy are set forth in Exhibit A.

4.14 Other Amounts. For any Billing Month, any amounts payable pursuant to Section 10.1.4, 10.2.2 or 10.3.7 shall be added to or subtracted as applicable from the calculation of the Monthly Charge.

4.15 Taxes. No state or local sales, excise, gross receipts or other taxes are included in the charges and credits set forth in this Article 4. Kenergy shall pay or cause to be paid any such taxes which are now or hereafter become applicable to the sale of Electric Services to Kenergy under this Agreement.

ARTICLE 5

BILLING

5.1 Monthly Invoice. Big Rivers shall bill Kenergy on or before the tenth Business Day of each month for the Monthly Charge as calculated pursuant to Article 4 based on the sale of Electric Services during the most recently ended Billing Month plus any other amounts then due and owing pursuant to this Agreement. Kenergy shall pay or cause to be paid to Big Rivers the Monthly Charge and any other amounts due and owing in immediately available funds to an account designated in the Lockbox Agreement on the Business Day following the 24th day of the month following the Billing Month. For the convenience of the Parties, and to facilitate satisfaction of Kenergy's obligation to Big Rivers, Kenergy has assigned to Big Rivers its right to receive payment from Century under the Century Retail Agreement and its rights to collect and enforce collection of such amounts due from Century other than with respect to the "Retail Fee" as defined in the Century Retail Agreement pursuant to the Lockbox Agreement. Big Rivers hereby releases Kenergy from further liability under this Agreement for amounts subject to such assignment to Big Rivers, *provided* that such release does not relieve Kenergy of its other liabilities or responsibilities under this Agreement. Kenergy shall cooperate with and assist Big Rivers with respect to any collections of amounts due from Century to Kenergy which are assigned to Big Rivers; *provided*, that Big Rivers will reimburse Kenergy for any reasonable expenses Kenergy incurs in providing such cooperation or assistance.

5.2 Right to Discontinue Service. If Kenergy (or Century on behalf of Kenergy) fails to pay any monthly invoice rendered by Big Rivers within the time prescribed in Section 5.1, Big Rivers may discontinue delivery of any or all Electric Services hereunder upon 120 Hours prior written notice to Kenergy and Century of its intention to do so. Big Rivers' discontinuance of such service for non-payment will not in any way affect, diminish or limit the obligations of Kenergy (or Century on behalf of Kenergy) to make all payments required under this Agreement or the Century Retail Agreement, as and when due.

5.3 Default Interest. If any monthly invoice rendered by Big Rivers is not paid on the due date, interest will accrue and become payable by Kenergy to Big Rivers on all unpaid amounts at a rate of four percentage points over the Prime Rate commencing on the first day after the due date.

5.4 Payments Under Protest. If any portion of any monthly statement is disputed by Kenergy (or Century), the disputed amount must be paid, under protest, when due. If the disputed amount of the payment is found to be incorrect, Big Rivers shall promptly cause to be refunded to Kenergy (or to Century on behalf of Kenergy, as applicable) the amount that was not then due and payable, together with interest at the Prime Rate commencing on the first day after the date of payment and accruing on each day thereafter until the date the refund is made.

5.5 [Reserved.]

5.6 No Waiver. No payment made by Kenergy (or Century on Kenergy's behalf) pursuant to this Article 5 will constitute a waiver of any right of Kenergy (or Century) to contest the correctness of any charge or credit.

5.7 No Payment. In no case shall Big Rivers be obligated to make a payment to Kenergy in connection with the application of a credit to Kenergy's Monthly Charges except to the extent otherwise expressly provided in Section 10.2.1(a) with respect to Undeliverable Energy Sales.

passage of time or the giving of notice constitute, an Event of Default and this Agreement does not provide any other remedy therefor, if such breach has not been cured by the breaching Party within 60 days after receiving written notice from the non-breaching Party setting forth, in reasonable detail, the nature of such breach, the non-breaching Party may bring a claim for money damages with respect to such breach and exercise its rights under Section 15.2, but will not be entitled to terminate, or seek to terminate, this Agreement, or suspend performance of its obligations and duties hereunder as a result of such breach.

ARTICLE 15

DISPUTE RESOLUTION

15.1 Resolution Meetings. If a dispute arises between the Parties concerning the terms or conditions of this Agreement, the duties or obligations of the Parties under this Agreement, or the implementation, interpretation or breach of this Agreement, either Party may request in writing a meeting among an authorized representative of each of the Parties and, if applicable, Century to discuss and attempt to reach a resolution of the dispute. Such meeting will take place within ten days or such shorter or longer time as agreed upon by the Parties of the request. Nothing in this Section 15.1 shall toll or extend the cure period with respect to the failure by a Party to perform its obligations under this Agreement.

15.2 Right to Pursue Rights and Remedies. Absent resolution of a dispute pursuant to Section 15.1, the Parties may pursue at any Governmental Authority all rights and remedies that they may have at law, in equity or pursuant to this Agreement subject to the limitations set forth in this Agreement. Notwithstanding the provisions of this Article 15, each Party may at all times seek injunctive relief, where its delay in doing so could result in irreparable injury.

ARTICLE 16

GENERAL PROVISIONS/SUCCESSORS AND ASSIGNS

16.1 Binding Nature. This Agreement will inure to the benefit of and be binding upon the Parties hereto and their respective successors and permitted assigns. No interest in this Agreement may be transferred or assigned by either Party, in whole or in part, by instrument or operation of law, without the prior written consent of the other Party, except as provided in Section 16.4, and except that, subject to satisfaction of the conditions of Section 16.2, assignment may be made by either Party to such Person as acquires all or substantially all the assets of the assigning Party or which merges with or acquires all or substantially all of the equity of such Party. When consent is required, consent may not be unreasonably withheld, conditioned or delayed.

16.2 Limitation on Assignment. In no event may either Party assign this Agreement (including as part of a sale of all or substantially all the assets of the assigning Party or a merger with or purchase of substantially all the equity interests of such Party) (i) to any Person that does not have adequate financial capacity as demonstrated to the reasonable satisfaction of the non-assigning Party or that would otherwise be unable to perform the obligations of the assigning

Party pursuant to this Agreement or (ii) on any terms at variance from those set forth in this Agreement except as agreed to in writing by the Parties.

16.3 Duties. No permitted assignment or transfer will change the duties of the Parties, or impair the performance under this Agreement except to the extent set forth in such permitted assignment and approved in writing by the Parties. No Party is released from its obligations under this Agreement pursuant to any assignment, unless such release is granted in writing.

16.4 Financing Lien. Either Party may, without the approval of the other Party, assign this Agreement as collateral security or grant one or more mortgages (including one or more deeds of trust or indentures) on or security interests in its interest under this Agreement in connection with the general financing of its assets or operations.

16.5 Big Rivers Restructuring.

16.5.1 In connection with a Restructuring, Kenergy, Century, Alcan and Big Rivers shall determine a good faith estimate of the cumulative increase or decrease in the TIER Adjustment that such Restructuring would cause in each Fiscal Year over the 24-Billing Month period following the date of the effectiveness of Restructuring (the "Restructuring Amount"). Any change in the Large Industrial Rate approved at the time of or in connection with the Restructuring shall not be considered as an effect of the Restructuring. Nothing in this Agreement, including this Section 16.5, shall limit the ability of Big Rivers to seek a change in or modification of the Large Industrial Rate in connection with the occurrence of a Restructuring.

16.5.2 The Monthly Charge in each month of the 48-month period following the effectiveness of the Restructuring shall be increased or decreased, as applicable, by an amount equal to 1/48th of the product of the Restructuring Amount and the Applicable Percentage; *provided*, that the application of this Section 16.5 shall not result in Kenergy paying less than the sum of the Large Industrial Rate, the FAC Factor, the Environmental Surcharge Factor and the Non-FAC Purchased Power Adjustment Factor, all on a per MWh basis, for a customer with a 98% load factor with respect to Base Monthly Energy in any Fiscal Year. Sample calculations for determining a Restructuring Amount are set forth in Exhibit A.

16.5.3 This Section 16.5 shall not be applicable to any Restructuring undertaken in response to the loss of revenue caused by the termination of the Alcan Wholesale Agreement.

16.5.4 If Century, Alcan, Kenergy and Big Rivers are not able to determine a mutually agreeable estimate of the Restructuring Amount, then Big Rivers, Kenergy, Century or Alcan may petition to the KPSC to determine the Restructuring Amount.

ARTICLE 17

MISCELLANEOUS

17.1 Governing Law. This Agreement shall be interpreted, governed by and construed under the laws of the Commonwealth of Kentucky, without regard to its conflicts of law rules.

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 44) *Reference the Berry testimony at pages 13 and 14 and the Application in general. Please explain in complete detail the meaning of the statement that there will be "no immediate impact on their [residential] bills."*

a. Will there be one in the future?
b. If so, by how much and when?

Response) The statement that there will be "no immediate impact on their [rural] bills" means that in 2016, when the construction of the projects in the 2012 Plan is complete, the cost of the 2012 Plan included in the ES tariff will be entirely mitigated by the Member Rate Stability Mechanism ("MRSM") and the Rural Economic Reserve ("RER").

a.,b. Yes. According to the projections in the environmental cost plan financial model, the reserve accounts will become depleted in 2018. At that time, the rural rate class should experience an increase of approximately 6.9%. See the direct testimony of John Wolfram, pages 19 through 21, and Exhibit Wolfram-6.

Witness) John Wolfram

APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF ITS 2012 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ESTABLISH A REGULATORY ACCOUNT
CASE NO. 2012-00063

Response to the Office of the Attorney General's Initial Request for Information Dated May 21, 2012

June 1, 2012

Item 45) ***Did the Commission's approval of the Unwind transaction contemplate the use of the RER account to be used to satisfy any EPA related compliance costs?***

Response) In its November 17, 2011, Order in Big Rivers' recent rate case, Case No. 2011-00036, the Commission approved a modification to Big Rivers' RER tariff so that it would operate in the same manner as the MRSM tariff,[2] i.e., to mitigate charges under Big Rivers' Environmental Surcharge and Fuel Adjustment Clause tariffs, except that the RER tariff only applies to the Rural class. Thus, the RER tariff was modified with Commission approval to offset EPA related compliance costs subject to recovery through Big Rivers' Environmental Surcharge tariff. None of the intervenors objected to that proposed modification.

Witness) Mark A. Hite

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[2] See Order dated November 17, 2011, in In the Matter of: Application of Big Rivers Electric Corporation for a General Adjustment in Rates, Case No. 2011-00036, at p. 35.