Big Rivers Electric Corporation

Financial Statements as of December 31, 2008
and 2007, and for Each of the Three Years
in the Period Ended December 31, 2008, and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Big Rivers Electric Corporation:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2008. 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.

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, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, 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 23, 2009, 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. 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.

Deloitte & Touche LLP

March 23, 2009

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
ASSETS		
UTILITY PLANT — Net	$ 912,699	$ 911,634
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	-	192,932
OTHER DEPOSITS AND INVESTMENTS — At cost	4,693	4,240
CURRENT ASSETS:		
Cash and cash equivalents	38,903	148,914
Accounts receivable	20,464	26,683
Materials and supplies inventory	756	768
Prepaid expenses	450	131
Total current assets	60,573	176,496
DEFERRED LOSS FROM TERMINATION OF SALE-LEASEBACK	76,001	-
DEFERRED CHARGES AND OTHER	20,470	28,856
TOTAL	$ 1,074,436	$ 1,314,158
EQUITIES (DEFICIT) AND LIABILITIES		
CAPITALIZATION:		
Equities (deficit)	$ (154,602)	$ (174,137)
Long-term debt	987,349	1,022,345
Obligations related to long-term lease	-	183,891
Total capitalization	832,747	1,032,099
CURRENT LIABILITIES:		
Current maturities of long-term obligations	51,771	39,392
Purchased power payable	9,336	13,038
Accounts payable	5,832	4,932
Accrued expenses	3,134	3,014
Accrued interest	8,018	7,811
Total current liabilities	78,091	68,187
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	10,955	15,537
Deferred gain on sale-leaseback	-	53,480
Residual value payments obligation	145,145	141,370
Other	7,498	3,485
Total deferred credits and other	163,598	213,872
COMMITMENTS AND CONTINGENCIES (see Note 13)		
TOTAL	$ 1,074,436	$ 1,314,158

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(Dollars in thousands)

	2008	2007	2006
POWER CONTRACTS REVENUE	$ 214,758	$ 271,605	$ 200,692
LEASE REVENUE	58,423	58,265	57,896
Total operating revenue	273,181	329,870	258,588
OPERATING EXPENSES:			
Operations:			
Power purchased and interchanged	114,643	169,768	114,516
Transmission and other	28,600	27,196	21,684
Maintenance	4,258	4,240	3,652
Depreciation and amortization	31,041	30,632	30,408
Total operating expenses	178,542	231,836	170,260
ELECTRIC OPERATING MARGIN	94,639	98,034	88,328
INTEREST EXPENSE AND OTHER:			
Interest	65,719	60,932	60,754
Interest on obligations related to long-term lease	6,991	9,919	9,505
Amortization of loss from termination of long-term lease	811	-	-
Income tax expense	5,934	-	-
Other — net	123	103	111
Total interest expense and other	79,578	70,954	70,370
OPERATING MARGIN	15,061	27,080	17,958
NONOPERATING MARGIN:			
Interest income on restricted investments under long-term lease	8,742	12,481	12,069
Interest income and other	4,013	7,616	4,515
Total nonoperating margin	12,755	20,097	16,584
NET MARGIN	$ 27,816	$ 47,177	$ 34,542

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(Dollars in thousands)

	Total Equities (Deficit)	Accumulated Deficit	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE — December 31, 2005	$(251,913)	$(256,358)	$764	$ 3,681	$ -
Net margin/total comprehensive income	34,542	34,542	-	-	-
BALANCE — December 31, 2006	(217,371)	(221,816)	764	3,681	-
Net margin/total comprehensive income	47,177	47,177	-	-	-
FAS 158 adoption	(3,943)	-	-	-	(3,943)
BALANCE — December 31, 2007	(174,137)	(174,639)	764	3,681	(3,943)
Comprehensive income:					
Net margin	27,816	27,816	-	-	-
FAS 158 funded status adjustment	(8,281)	-	-	-	(8,281)
Total comprehensive income	19,535				
BALANCE — December 31, 2008	$(154,602)	$(146,823)	$764	$ 3,681	$(12,224)

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(Dollars in thousands)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 27,816	$ 47,177	$ 34,542
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	34,320	33,866	33,592
Increase in restricted investments under long-term lease	(2,502)	(6,242)	(6,040)
Decrease in deferred AMT Income Taxes	5,035	-	-
Amortization of deferred gain on sale-leaseback	(1,998)	(2,900)	(2,882)
Amortization of deferred loss on sale-leaseback	811	-	-
Deferred lease revenue	(4,582)	(1,779)	(4,439)
Residual value payments obligation gain	(6,748)	(6,591)	(6,187)
Increase in RUS ARVP Note	5,841	5,572	5,313
Increase in New RUS Promissory Note	-	15,761	13,889
Increase in obligations under long-term lease	2,749	6,580	6,356
Changes in certain assets and liabilities:			
Accounts receivable	6,218	(8,934)	(1,398)
Materials and supplies inventory	12	43	(144)
Prepaid expenses	(319)	3,477	(3,517)
Deferred charges	1,871	(2,429)	(694)
Purchased power payable	(3,702)	3,818	(1,513)
Accounts payable	899	1,566	972
Accrued expenses	327	1,033	81
Other — net	(4,940)	(5,465)	(1,170)
Net cash provided by operating activities	61,108	84,553	66,761
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(22,760)	(18,682)	(13,189)
Proceeds from disposition of investments related to sale-leaseback	222,739	-	-
Other deposits and investments	(401)	(424)	(419)
Net cash provided by (used in) investing activities	199,578	(19,106)	(13,608)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(40,838)	(12,676)	(24,274)
Payments upon termination of sale-leaseback	(329,859)	-	-
Net cash used in financing activities	(370,697)	(12,676)	(24,274)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,011)	52,771	28,879
CASH AND CASH EQUIVALENTS — Beginning of year	148,914	96,143	67,264
CASH AND CASH EQUIVALENTS — End of year	$ 38,903	$148,914	$ 96,143
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 74,819	$ 45,600	$ 47,277
Cash paid for taxes	$ 1,220	$ 420	$ 375

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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"), sells surplus power under separate contracts to Kenergy Corp. for a portion of 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 extend to January 1, 2023. 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 Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of 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 are the restricted investments acquired in connection with the 2000 sale-leaseback transaction discussed in Note 4.

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.

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.

System of Accounts — Big Rivers' accrual basis accounting policies generally follow 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.

Revenue Recognition — Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. In accordance with SFAS No. 13, *Accounting for Leases*, Big Rivers' revenue from the Lease Agreement is 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).

In conjunction with the Lease Agreement, Big Rivers expects to realize the minimum lease revenue for the years ending December 31, as follows:

	Amount
2009	$ 52,332
2010	52,332
2011	41,291
2012	35,076
2013	35,076
Thereafter	350,756
	$ 566,863

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.

In accordance with the terms of the Lease Agreement, the Company generally records capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by E.ON U.S. (formerly LG&E Energy Corporation) as utility plant to which the Company maintains title. A corresponding obligation to E.ON U.S. is recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation is amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2008 and 2007, the Company has recorded $10,728 and $8,359, respectively, for such additions in utility plant. The Company has recorded $6,748, $6,591, and $6,187 in 2008, 2007, and 2006, respectively, as related lease revenue in the accompanying financial statements.

In accordance with the Lease Agreement, and in addition to the capital costs funded by E.ON U.S. (see Note 2) that are recorded by the Company as utility plant and lease revenue, E.ON U.S also incurs certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they forego a Residual Value Payment by Big Rivers upon lease termination. Such amounts are not recorded as utility plant or lease revenue by the Company. At December 31, 2008, the cumulative Nonincremental Capital Costs amounted to $6,618 (unaudited).

E.ON U.S. has constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The project cost $97,495 (unaudited). No amounts related to this project are recorded in the Company's financial statements.

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-leased	1.60%–2.47%
Transmission plant	1.76%–3.24%
General plant	1.11%–5.62%

For 2008, 2007, and 2006, the average composite depreciation rates were 1.85%, 1.85%, and 1.86%, 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.

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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. SFAS No. 144 requires the evaluation for impairment involve the comparison of 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.

Restricted Investments — Investments are restricted under contractual provisions related to the sale-leaseback transaction discussed in Note 4. These investments have been classified as held-to-maturity and are carried at amortized cost.

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.

Income Taxes — 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 and BRLC file a consolidated Federal income tax return and Big Rivers files a separate Kentucky income tax return.

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.

Derivatives — Management has reviewed the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, and has determined that all contracts meeting the definition of a derivative also qualify for the normal purchases and sales exception under SFAS No. 133. 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.

New Accounting Pronouncements — In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after

November 15, 2007. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option a) may be applied instrument by instrument; b) is irrevocable (unless a new election date occurs); and c) is applied only to entire instruments and not to portions of instruments. The Company has not elected to record any financial assets or liabilities at fair value under this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133*. SFAS 161 enhances the current disclosures under SFAS 133 and requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation in order to better convey the purpose of derivative use in terms of the risks that the entity is intending to manage. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company will adopt SFAS 161 on January 1, 2009, and the impact is not expected to be material to the Company's financial position or results of operations.

2. LG&E LEASE AGREEMENT

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 E.ON U.S. Pursuant to the Lease Agreement, WKEC operates the generating facilities and maintains 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 purchases substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of E.ON U.S., pursuant to a power purchase agreement.

Big Rivers continues to operate its transmission facilities and charges LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement are as follows:

I. WKEC leases and operates Big Rivers' generation facilities through 2023.

II. Big Rivers retains ownership of the generation facilities both during and at the end of the lease term.

III. WKEC pays Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

IV. 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 SFAS No. 13, *Accounting for Leases*, the Company amortizes these payments to revenue on a straight-line basis over the life of the lease.

V. Big Rivers continues 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 obtains 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 is served by LEM and other third-party providers that may include Big Rivers. To the extent the power purchased from LEM does not reach pre-determined minimums, the Company is required to pay certain penalties. Also, to the extent additional power is available to Big Rivers under the LEM contract, Big Rivers may sell to nonmembers.

VI. LEM will reimburse Big Rivers an additional $42,077 for the margins expected from the Aluminum Smelters through 2011, being 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").

VII. WKEC is responsible for the operating costs of the generation facilities; however, Big Rivers is 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. This cumulative amount is not expected to exceed $148,000 over the entire 25-1/2 year Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a "Residual Value Payment" to E.ON U.S. for such capital additions during the lease, currently estimated to be $125,880 (see Note 1). Adjustments to the Residual Value Payment will be made based upon actual capital expenditures. Additionally, WKEC will make required capital improvements to the facilities to comply with a new law or a change to existing law ("Incremental Capital Costs") over the lease life (the Company is partially responsible for such costs: 20% through 2010) and the Company will be required to submit another Residual Value Payment to E.ON U.S. for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease, currently estimated to be $18,609. The Company will have title to these assets during the lease and upon lease termination.

VIII. 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, which bears interest 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 is being amortized on a straight-line basis over the lease term.

IX. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which has been recorded as a component of deferred charges. This amount is being amortized on a straight-line basis over the lease term.

X. During the lease term, Big Rivers will be entitled to certain "billing credits" against amounts the Company owes 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 will receive a credit of $2,611 and for the years 2012 through 2023, the Company will receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company is allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM does 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 and the RUS ARVP Note, the benefit, net of tax, as defined, derived from Arbitrage must be divided as follows: one-third, adjusted for capital expenditures, will be used to make principal payments on the New RUS Promissory Note; one-third will be used to make principal payments on the RUS ARVP Note; and the remaining value may be retained by the Company.

Management is of the opinion that the Company is in compliance with all covenants of the Lease Agreement.

The Company, LEM, and WKEC have entered into an agreement that would allow for a mutually acceptable early termination of the Lease Agreement (see Note 14).

3. UTILITY PLANT

At December 31, 2008 and 2007, utility plant is summarized as follows:

	2008	2007
Classified plant in service:		
Electric plant — leased	$1,535,004	$1,524,421
Transmission plant	230,800	209,547
General plant	17,240	15,772
Other	543	114
	1,783,587	1,749,854
Less accumulated depreciation	879,073	853,290
	904,514	896,564
Construction in progress	8,185	15,070
Utility plant — net	$ 912,699	$ 911,634

Interest capitalized for the years ended December 31, 2008, 2007, and 2006, was $492, $391, and $236, respectively.

The Company has not identified any material legal obligations, as defined in SFAS No. 143, *Accounting for Asset Retirement Obligations*, which was further interpreted by FASB Interpretation No. 47, *Accounting for Conditional 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, 2008 and 2007, the Company had a regulatory liability of approximately $32,696 and $29,771, respectively, related to nonlegal 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 is being amortized over the remaining period of the original transaction. Big Rivers believes this regulatory asset will be subsequently recovered through the rate-making actions of the Kentucky Public Service Commission.

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. These amounts are reflected for 2007 as restricted investments under long-term lease and obligations related to long-term lease in the accompanying balance sheets. 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, $2,900, and $2,881, in 2008, 2007, and 2006, respectively.

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2008 and 2007, are as follows:

	2008	**2007**
Restricted investments under long-term lease	$ -	$ 192,932
Obligations related to long-term lease	-	183,891
Deferred gain on sale-leaseback	-	53,480
Deferred loss from termination of sale-leaseback	76,001	-

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2008, 2007, and 2006, are as follows:

	2008	2007	2006
Power contracts revenue (revenue discount adjustment — see Note 6)	$ (2,453)	$ (3,680)	$ (3,680)
Interest on obligations related to long-term lease:			
Interest expense	$ 8,989	$ 12,819	$ 12,386
Amortize gain on sale-leaseback	(1,998)	(2,900)	(2,881)
Net interest on obligations related to long-term lease	$ 6,991	$ 9,919	$ 9,505
Interest income on restricted investments under long-term lease	$ 8,742	$ 12,481	$ 12,069
Interest income and other	$ 779	$ 778	$ 777

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2008 and 2007, is as follows:

	2008	2007
New RUS Promissory Note, stated amount of, $768,391, stated interest rate of 5.75%, with an interest rate of 5.82%, maturing July 2021	$ 765,297	$ 804,098
RUS ARVP Note, stated amount of $245,899, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	103,685	99,290
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	15,658	16,204
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 8.95% and 3.74% in 2008 and 2007, respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 5.14% and 3.74% in 2008 and 2007, respectively), maturing in June 2013	58,800	58,800
PMCC Promissory Note interest rate of 8.5%, maturing in December 2009	12,380	-
Total long-term debt	1,039,120	1,061,692
Current maturities	51,771	39,347
Total long-term debt — net of current maturities	$ 987,349	$ 1,022,345

The following are scheduled maturities of long-term debt at December 31:

Year	Amount
2009	$ 51,771
2010	41,440
2011	47,492
2012	65,561
2013	64,542
Thereafter	768,314
Total	$1,039,120

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%. The RUS Notes are collateralized by substantially all assets of the Company.

Pollution Control Bonds — The County of Ohio, Kentucky, issued $83,300 of Pollution Control Periodic Auction Rate Securities, Series 2001, 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 variable rate and mature in October 2022.

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. Both Series are supported by municipal bond insurance and surety policies issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policies or the surety policies.

Due to current market conditions, the variable interest rates incurred on the Series 1983 and Series 2001 Pollution Control Bonds have increased. These instruments are subject to maximum interest rates of 13% and 18%, respectively. The December 31, 2008 interest rates on the Series 1983 and Series 2001 Pollution Control Bonds were 3.41% and 18%, respectively.

LEM Settlement Note — On the Effective Date, Big Rivers executed the Settlement Note with LEM. The Settlement Note requires Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment is approximately $1,822 annually. This payment is 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.

Other Long-Term Obligations — During 1997, Big Rivers terminated two unfavorable coal contracts. In connection with that settlement, the Company paid $45, $47, and $345 during 2008, 2007, and 2006, respectively. At December 31, 2008, the Company has no remaining liability associated with that settlement agreement.

PMCC Promissory Note — On September 30, 2008 in conjunction with the early termination of the sale-leaseback transaction (see Note 4), Big Rivers executed a promissory note with Phillip Morris Capital Corporation (PMCC). The note requires Big Rives to pay PMCC $12,380, plus interest at 8.5% per annum. The note matures in December 2009.

Notes Payable — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation. The maximum borrowing capacity on the line of credit is $15,000. There were no borrowings outstanding on the line of credit at December 31, 2008, but letter of credits issued under an associated Letter of Credit Facility reduced the borrowing capacity by $2,670. The line of credit bears interest at a variable rate. Each advance on the line of credit is payable within one year.

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 rate designs 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. The remaining customers demand charge is based upon the maximum coincident demand of each member's delivery points. The demand and energy charges are not subject to adjustments for increases or decreases in fuel or environmental costs. Big Rivers' current rates will remain in effect until changed by the KPSC.

In mid-2008, the financial rating of Ambac (see Note 4), a party to the sale-leaseback transaction Big Rivers entered into in 2000 was lowered, triggering an obligation on the part of the Company to replace Ambac in the transaction or otherwise resolve the issues created by that circumstance. Big Rivers elected to buyout the equity participants and simultaneously terminate the transaction on September 30, 2008. The buyout price significantly reduced Big Rivers' cash reserves. Accordingly, on March 2, 2009, Big Rivers filed an application with the Kentucky Public Service Commission (Commission) requesting approval of a 21.6% rate increase, seeking an effective date of April 1, 2009 for interim rate relief. A hearing on the interim rate relief is scheduled for March 26, 2009. Big Rivers believes the requested rate increase is reasonable and necessary to enable it to continue meeting all of its long-term financial obligations on a timely basis. In addition, Big Rivers has been and continues to reduce its non-critical expenditures in order to ensure that it can meet its short-term obligations as they fall due. Big Rivers has not increased the base wholesale tariff rates to its member distribution cooperatives since 1997. If the termination of the LG&E lease agreement (see Note 14) closes, this case will become moot, and will be dismissed. The termination of the LG&E lease agreement would also provide Big Rivers all necessary cash resources.

Effective since September 1, 2000, the KPSC has approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members through August 31, 2008, 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.

7. 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 is a taxable cooperative. Big Rivers is also subject to Kentucky income tax.

Under the provisions of SFAS No. 109, *Accounting for 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.

As a result of the above noted termination (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 solely of Alternative Minimum Tax (AMT) credit carryforwards). 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 have been recorded in the Statement of Operations.

At December 31, 2008, Big Rivers had a nonpatron net operating loss carryforward of approximately $102,807 expiring through 2012, and an alternative minimum tax credit carryforward of approximately $5,935, which carries forward indefinitely.

As of December 31, 2007, Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2007, is approximately $5,035, which represents the alternative minimum tax credit carryforward, against which no allowance has been provided.

The Company has not recorded any regular income tax expense for the years ended December 31, 2008, 2007 and 2006, 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 $20,363, $7,724, and $10,599 in current regular tax expense for the years ended December 31, 2008, 2007 and 2006, respectively.

The components of the net deferred tax assets as of December 31, 2008 and 2007, were as follows:

	2008	**2007**
Deferred tax assets:		
Net operating loss carryforward	$ 40,609	$ 60,972
Alternative minimum tax credit carryforwards	5,935	5,035
Sale-leaseback	-	142,807
Fixed asset basis difference	33,786	7,764
Other accruals	-	2,844
Total deferred tax assets	80,330	219,422
Deferred tax liabilities — lease agreement	(25,384)	(27,359)
Net deferred tax asset (prevaluation allowance)	54,946	192,063
Valuation allowance	(54,946)	(187,028)
Net deferred tax asset	$ -	$ 5,035

A reconciliation of the Company's effective tax rate for 2008, 2007 and 2006, follows:

	2008	2007	2006
Federal rate	35.0 %	35.0 %	35.0 %
State rate — net of federal benefit	4.5	4.5	4.5
Patronage allocation to members	(31.3)	(28.0)	(20.5)
Tax benefit of operating loss carryforwards and other	(8.2)	(11.5)	(19.0)
Alternative minimum tax	18.0	-	-
Effective tax rate	18.0 %	- %	- %

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, disclosures and transition. The cumulative effects of applying FIN 48 are to be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 was effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on January 1, 2007. The Company files a federal income tax return, as well as several state income tax returns. The years currently open for federal tax examination are 2005 through 2008 and 1990 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2002 through 2008 and years 1990 through 1997, also due to unused net operating loss carryforwards. As a result of implementing FIN 48, the Company made no adjustment to the liability for unrecognized tax benefits. The Company did not have any unrecognized tax benefits recorded related to federal or state income taxes.

Upon adoption of FIN 48, the Company adopted a financial statement policy of classification of interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No interest or penalties have been recorded as of the adoption or during 2007 and 2008.

8. POWER PURCHASED

In accordance with the Lease Agreement, Big Rivers supplies 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 include minimum and maximum hourly and annual power purchase amounts. Big Rivers cannot 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 fails to take the minimum requirement during any hour or year, Big Rivers is 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 will be required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease does 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, 2008, 2007, and 2006, were $99,700, $96,295, and $97,999, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

Defined Benefit Plans — Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements. 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.

On December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88,106, and 132(R)* ("SFAS No. 158"). SFAS No. 158 required the Company to recognize the funded status of its pension plans and other postretirement plans (see Note 11 — Postretirement Benefits Other Than Pensions). SFAS No. 158 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.

SFAS No. 158 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, 2008 and 2007.

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, 2008 and 2007, follows:

	2008	2007
Benefit obligation — beginning of period	$ 19,889	$ 17,464
Service cost — benefits earned during the period	1,072	958
Interest cost on projected benefit obligation	1,220	1,058
Participant contributions (lump sum repayment)	318	-
Benefits paid	(248)	(124)
Actuarial loss	2,002	533
Benefit obligation — end of period	$ 24,253	$ 19,889

The accumulated benefit obligation for all defined benefit pension plans was $18,568 and $14,789 at December 31, 2008 and 2007, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2008 and 2007, follows:

	2008	2007
Fair value of plan assets — beginning of period	$ 21,820	$ 16,416
Actual return on plan assets	(5,095)	1,006
Employer contributions	3,500	4,522
Participant contributions (lump sum repayment)	318	-
Benefits paid	(248)	(124)
Fair value of plan assets — end of period	$ 20,295	$ 21,820

The funded status of the Company's pension plans at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation — end of period	$ (24,253)	$ (19,889)
Fair value of plan assets — end of period	20,295	21,820
Funded status	$ (3,958)	$ 1,931

Components of net periodic pension costs for the years ended December 31, 2008, 2007, and 2006, were as follows:

	2008	2007	2006
Service cost	$ 1,072	$ 958	$ 838
Interest cost	1,220	1,058	926
Expected return on plan assets	(1,516)	(1,167)	(828)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	247	285	212
Net periodic benefit cost	$ 1,042	$ 1,153	$ 1,167

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2008 and 2007, follows:

	2008	2007
Prior service cost	$ (78)	$ (97)
Unamortized actuarial (loss)	(13,226)	(4,861)
Accumulated other comprehensive income	$ (13,304)	$ (4,958)

In 2009, $19 of prior service cost and $828 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2008, follows:

Prior service cost	$ 19
Unamortized actuarial (loss)	(8,365)
Other comprehensive income	$ (8,346)

At December 31, 2008 and 2007, amounts recognized in the statement of financial position were as follows:

	2008	2007
Deferred charges and other	$ -	$ 1,931
Deferred credits and other	(3,958)	-
Net amount recognized	$ (3,958)	$ 1,931

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2008	2007	2006
Discount rate — projected benefit obligation	6.38 %	6.25 %	5.75 %
Discount rate — net periodic benefit cost	6.25	5.75	5.75
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%.

The general investment objectives are to invest in a diversified portfolio, comprised of both equity and fixed income investments, which are further diversified among various asset classes. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plans of up to 65% equities. The remaining 35% may be allocated among fixed income or cash equivalent investments. Objectives do not target a specific return by asset class. These investment objectives are long-term in nature. As of December 31, 2008 and 2007, the investment allocation was 47% and 49%, respectively, in equities and 53% and 51%, respectively, in fixed income.

Expected retiree pension benefit payments projected to be required during the years following 2008 are as follows:

Years Ending December 31	Amount
2009	$ 1,092
2010	1,860
2011	1,663
2012	2,781
2013	3,711
2014–2018	12,304
Total	$ 23,411

In 2009, the Company expects to contribute $1,169 to its pension plan trusts.

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 $308 and $215 for the years ended December 31, 2008 and 2007, respectively.

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 2008 employer contributions and deferred compensation expense, and the trust asset and deferred liability balances as of December 31, 2008, were each $37.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 had no impact on the Company's results of operations and financial condition.

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 that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount, as follows:

	2008	2007
Institutional money market government portfolio	$ 38,424	$ 148,316

The fair value of restricted investments is determined based upon quoted market prices and rates. The carrying value of the investments is recorded at accreted value and the terms of the investment are within Note 4. The estimated fair values of the restricted investments are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$ -	$ -	$ 192,932	$ 250,088

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

It was not practical to estimate the fair value of long-term debt due to Big Rivers' inability to obtain long-term debt from outside parties.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. As of July 1, 2001, Big Rivers pays 85% of the cost from age 62 to 65 for all retirees. For salaried employees who retired prior to December 31, 1993, Big Rivers pays 100% of Medicare supplemental costs. For salaried employees who retire after December 31, 1993, Big Rivers pays 25% plus $25 per month of the Medicare supplemental costs.

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 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:

	2008	2007	2006
Discount rate — projected benefit obligation	6.32 %	5.85 %	5.75 %
Discount rate — net periodic benefit cost	5.85	5.75	5.75

The health care cost trend rate assumptions as of December 31, 2008 and 2007, were as follows:

	2008	2007
Initial trend rate	7.90 %	9.00 %
Ultimate trend rate	4.50 %	5.50 %
Year ultimate trend is reached	2028	2012

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	2008	2007
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (37)	$ (28)
Effect on year end benefit obligation	(290)	(268)
One-percentage-point increase:		
Effect on total service and interest cost components	44	34
Effect on year end benefit obligation	337	313

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation — beginning of period	$ 2,862	$ 2,695
Service cost — benefits earned during the period	129	85
Interest cost on projected benefit obligation	167	153
Participant contributions	61	45
Benefits paid	(179)	(170)
Actuarial (gain) or loss	(92)	54
Benefit obligation — end of period	$ 2,948	$ 2,862

A reconciliation of the Company's postretirement plan assets at December 31, 2008 and 2007, follows:

	2008	2007
Fair value of plan assets — beginning of period	$ -	$ -
Employer contributions	118	125
Participant contributions	61	45
Benefits paid	(179)	(170)
Fair value of plan assets — end of period	$ -	$ -

The funded status of the Company's postretirement plan at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation — end of period	$ (2,948)	$ (2,862)
Fair value of plan assets — end of period	-	-
Funded status	$ (2,948)	$ (2,862)

The components of net periodic postretirement benefit costs for the years ended December 31, 2008, 2007, and 2006, were as follows:

	2008	2007	2006
Service cost	$ 129	$ 85	$ 145
Interest cost	167	153	143
Amortization of prior service cost	2	2	2
Amortization of actuarial (gain)	(60)	(70)	(80)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$ 269	$ 201	$ 241

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2008 and 2007, follows:

	2008	2007
Prior service cost	$ (7)	$ (9)
Unamortized actuarial gain	1,210	1,177
Transition obligation	(123)	(153)
Accumulated other comprehensive income	$ 1,080	$ 1,015

In 2009, $2 of prior service cost, $65 of actuarial gain, and $30 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2008, follows:

Prior service cost	$ 2
Unamortized actuarial gain	33
Transition obligation	30
Other comprehensive income	$ 65

At December 31, 2008 and 2007, amounts recognized in the statement of financial position were as follows:

	2008	2007
Accounts payable	$ (156)	$ (138)
Deferred credits and other	(2,792)	(2,724)
Net amount recognized	$ (2,948)	$ (2,862)

Expected retiree benefit payments projected to be required during the years following 2008 are as follows:

Year	Amount
2009	$ 156
2010	178
2011	197
2012	220
2013	255
2014–2018	1,419
Total	$ 2,425

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 $408 and $345 at December 31, 2008 and 2007, respectively. The postretirement expense recorded was $63, $51, and $44 for 2008, 2007, and 2006, respectively, and the benefits paid were $0, $0, and $20 for 2008, 2007, and 2006, respectively.

12. RELATED PARTIES

For the years ended December 31, 2008, 2007, and 2006, Big Rivers had tariff sales to its members of $114,514, $113,281, and $108,737, respectively. In addition, for the years ended December 31, 2008, 2007, and 2006, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $55,124, $123,094, and $57,374, respectively.

At December 31, 2008 and 2007, Big Rivers had accounts receivable from its members of $16,540 and $20,052, 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.

14. TERMINATION OF THE LG&E LEASE AGREEMENT

The Big Rivers board of directors adopted resolutions on February 23, 2007, authorizing management, among other things, to execute a Transaction Termination Agreement among Big Rivers Electric

Corporation, LG&E Energy Marketing Inc., and Western Kentucky Energy Corp. (the "Termination Agreement"). The Termination Agreement establishes the terms on which Big Rivers, on the one hand, and LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. on the other hand, agree to terminate a series of contractual relationships established in 1998 under which, among other things, LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. currently lease and operate the generating units owned or previously operated by Big Rivers, and sell power to Big Rivers to use in meeting the requirements of its system. Those resolutions additionally authorize management to sign various agreements under which Big Rivers agrees to sell its member, Kenergy Corp., 850 MW in the aggregate for resale to Alcan Primary Products Corporation and Century Aluminum of Kentucky General Partnership, contingent upon the closing of the transaction contemplated in the Termination Agreement.

Applications seeking the necessary state regulatory approvals and tariff revisions required to implement these transactions were filed with the Commission on December 28, 2007, in P.S.C. Case Nos. 2007-00455 and 2007-00460. An order granting the relief sought in Case No. 2007-00460 was entered on June 25, 2008. By order dated March 6, 2009, the Commission entered a final order in Case No. 2007-00455 granting substantially all the relief sought by Big Rivers, and requiring the joint applicants to agree to certain conditions imposed in its order. Letters agreeing to those conditions were filed with the Commission on March 13, 2009, and the parties are working to complete the steps required to close the transactions contemplated in the Termination Agreement.

The termination of the LG&E lease is expected to have a significant and favorable financial impact on Big Rivers. The contemplated transaction, as approved by the Commission, requires that LG&E pay Big Rivers $505,373 in cash, transfer certain assets to Big Rivers and forgive Big Rivers obligation to make certain payments (recorded as a liability of $160,803 at December 31, 2008) to LG&E. Big Rivers contemplates using $140,000 of these proceeds to reduce it long-term debt.

* * * * * *