BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

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)

				Other equities		
		Total equities (deficit)	**Accumulated margin (deficit)**	**Donated capital and memberships**	**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.

(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.

(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.

(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.

(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%.

(Continued)

(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.

 (Continued)

(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		2009	
		Gains	**Losses**	**Gains**	**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		2009	
		Amortized costs	**Fair values**	**Amortized costs**	**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		2009	
		Less than 12 months		**Less than 12 months**	
		Losses	**Fair values**	**Losses**	**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.

(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.

(Continued)

(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.